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# FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT

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## HEARINGS

BEFORE THE

## COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

## S. 707

TO ESTABLISH DOMESTIC CONTENT REQUIREMENTS FOR MOTOR VEHICLES SOLD OR DISTRIBUTED IN INTERSTATE COMMERCE IN THE UNITED STATES

MAY 16, 24, 29, AND JULY 6, 1984

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# FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT

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WEDNESDAY, MAY 16, 1984

U.S. Senate,
Committee on Commerce, Science, and Transportation,
*Washington, DC.*

The committee met, pursuant to notice, at 9 a.m., in room SR-253, Russell Senate Office Building, Hon. Bob Packwood (Chairman of the Committee) presiding.

Staff members assigned to these hearings: Frank Cantrel, professional staff member and Loretta Dunn, minority staff counsel.

## OPENING STATEMENT BY THE CHAIRMAN

The **Chairman**. The committee will come to order, please.

It should be no surprise to anyone here why we have drawn the crowd and press coverage that we have on the bill before us today. It involves one of the principal economic and political issues before this Congress and, as a matter of fact, before this country in this an election year, and it is a very simple issue. The issue is whether or not we can in the U.S. automobile industry, compete with cars made overseas and, specifically, with cars made in Japan. Have we reached the place in the automobile industry that, despite our ability to earn profits, amass capital, and despite the fact that we have a gross national product 2½ times that of Japan, despite the fact that they have to transport their cars across the water, we can no longer compete in our own market with automobiles made overseas?

I fear that if the answer is that we can no longer compete in automobiles, then we can probably no longer compete in cement, textiles, steel, and most of the other basic industries of this country. If so we will have to rethink what the policy of this country will be.

Are we prepared, in essence, to demand that most of the products sold in this country be made in this country? Are we prepared to demand that, regardless of its effect it may have on our exports? Are we prepared to demand that, regardless of its effect on consumer prices in this country?

Are we prepared to start down the road of Smoot-Hawley that we started to leave 50 years ago, and say that henceforth we will "Balkanize" this world? Are we to manufacture for our market and let the Germans manufacture for their market, and let the Japanese manufacture for their market? Are we to pursue a course of action which, inevitably, will be unfortunate and adverse for the consumers of this country and the consumers of this world? I hope we are not going to start down that road.

This bill is but a small step, although it offers protectionism to a very significant industry, in that direction. I hope that 4 days of hearings, 2 in Washington and 2 outside of Washington, will give us a chance to lay out a record so complete and so factual that there will be no doubt in any detached observer's mind what the conclusion of our deliberations ought to be.

Senator Riegle.

### OPENING STATEMENT BY SENATOR RIEGLE

Senator RIEGLE. Thank you, Mr. Chairman.

Let me say at the outset how much I appreciate your willingness and cooperation to schedule this first hearing and subsequent hearings and the cooperative manner in which you have been willing to address this subject. As you have made clear, you have strong feelings on it, as do I and others in this room and throughout this Nation. But your willingness to move ahead now on a timely basis is both appropriate and I know certainly appreciated by me and the 17 Senate colleagues who cosponsor this legislation.

I would say at the outset, I feel we must have action on this bill, this year, both here in the committee and on the Senate floor. As the chief sponsor of this legislation in the Senate, I do have an opening statement to make, Mr. Chairman, which will try to set our side of the argument.

I will move through that now as quickly as I can. American is caught in a worldwide trade war, and we are losing that war. This year, $120 billion will flow out of America's economic bloodstream and be transferred to other nations. With this $120 billion go millions of American jobs, the jobs being taken to other countries, while 8 to 10 million American citizens still look for work here.

We are losing this worldwide trade war because our Government and our Nation has failed to develop an effective strategy. The Reagan administration and Trade Ambassador Brock have failed to understand the strategic consequences of this trade war, and America has suffered and has been put at great risk. This is an urgent problem of enormous consequence, and the time has come for us to act.

We are losing the trade war for many reasons, including predatory trading practices by other nations, foreign currency manipulation, double trading standards, where nations close their own markets to U.S. goods, while flooding America with their goods, and lower living and wage standard in foreign nations that create cost advantages adverse to the United States.

Japan is the worst offender. She is an unfair trading partner who closes her markets to American goods, while flooding surplus production into the United States.

Japan this year is presently draining $30 billion from the U.S. economy by means of deliberately unfair trading practice. This Japanese trade invasion has weakened America and strengthened Japan.

The financial realities tell a grim story. Today, unemployment in Japan is only 2.6 percent, while it hovers near 8 percent in the

United States. The prime rate of interest in Japan is 5½ percent. In America today, it is 12½ percent and rising steeply. Japan will ship nearly 2 million cars to the United States this year, but will buy from us only 2,000 American cars in return. While we provide the bulk of Japan's military defense—spending nearly 7 percent of our gross national product on defense—Japan in turn spends less than 1 percent of their gross national product the same way.

Of the $30 billion trade deficit that the United States suffers with Japan this year, nearly $20 billion, well over half, represents the deficit for Japanese cars and trucks imported into the United States.

This hemorrhage of American capital and jobs must be stopped now. Japan, which blatantly discriminates between U.S. products in the Japanese market, must end this trade imbalance now, before more permanent economic damage is done to the United States.

America must stop being a doormat for ruthless and greedy trading partners who flood our markets, but who are shameless in their practices of blocking our goods from their markets.

Sadly, traditional economists in our country have done little to illuminate the realities of this worldwide trade war or offer realistic strategies for coping with it. Most economic studies that have been done are badly flawed and seem designed to ignore trade practices that are ripping the heart out of the industrial base of the American economy.

The cold hard fact is that every nation on Earth, every nation on Earth, now practices trade restraints on foreign cars and trucks, and Japan, while enjoying a 21 percent market share of U.S. auto sales, leads the parade in insisting on protective measures that protect their home market from imported foreign cars.

In fact, every nation on Earth—I repeat, every nation on Earth—has now adopted either domestic content laws or quota systems to limit the trade invasion of foreign-built cars into their economies.

The United States remains the most generous trading nation on Earth, offering nearly 30 percent of the U.S. car market to foreign suppliers. Japan, with a 21 percent U.S. market penetration, is now selling one out of every five cars sold in America.

Great Britain and Germany limit Japan to a quota of about 10½ percent of their market, only ½ the percentage level of the United States. France has limited Japan to a meager 3 percent of market share, and 30 other nations have adopted domestic content laws.

Japan has willingly accepted these limitations. No GATT complaints have been filed by Japan. Japan dare not file a GATT complaint because they are one of the worst offenders of the so-called Fair Trade Laws, so the talk of retaliation is nonsense, usually spoken by those who work for importers. Free trade in autos in the world market disappeared a long time ago. We must face the fact that the world has decided against free trade in automobiles, and that is a reality that we alone cannot change.

The Government and merchants of Japan are playing us for fools, and our failure of national will to meet this problem head on is doing severe and permanent damage to our economy and our long-run financial strength.

That is why I have offered domestic content legislation, co-sponsored now by 17 Senate colleagues. That is why the House of Representatives, on a bipartisan basis, passed this legislation last November by a vote of 219 to 199, and that is why national public opinion polls show strong majority support among the American people for domestic content legislation.

The time has come for those foreign manufacturers who want to sell $15 to $20 billion worth of cars in America each year to come here to America with their profits and their capital and build their factories here. The time has come to require foreign car makers to build their cars with U.S. parts and U.S. labor. It is time they began to use steel and glass and rubber and aluminum and other components produced here in America by our own people.

We Americans can build cars as well as any people on Earth. If we can travel to the Moon and come back, something that no other nation has managed, we can build products that are the equal of any nation on Earth.

We are told by the Honda Co. that the quality of the Honda cars now being built in Ohio is of equal or better quality as the Hondas being built in Japan. This is no time for a national inferiority complex that surrenders manufacturing preeminence to Japan or anyone else. We can build anything here in America as well as or better than any people anywhere. And it is time we start working together to prove it. It is not time to surrender.

The industrial base is vital to our Nation in peacetime and in wartime. We need these jobs now and we need them in the future. We need these factories and these jobs so that we can keep these billions of dollars here in the U.S. economy, ever moving to create other jobs and greater wealth and strength for our Nation.

Every trade deficit dollar that we can keep here in America keeps moving through our economy. One workers' wages and taxes provide jobs for other Americans. In the end, our overall national standard of living depends upon our aggregate production and output, and we must reinvest a larger share of our national wealth here in our own country, and not ship it overseas.

We cannot maintain our national living standard if we are losing $120 billion a year of our national wealth to a trade deficit. We cannot continue to paper over the financial peril facing our country—and it is all through the financial pages of The Wall Street Journal and The New York Times today and every other day in this time period—with the massive annual $200 billion annual Federal deficits, sky-high interest rates, bad loans to Third World countries that cannot pay their bills, consortium bailouts of faltering U.S. banks, continuing high unemployment, and inadequate savings rate, and a 5-year U.S. defense spending plan totaling $1 trillion. This is a fool's paradise which cannot be maintained.

We must sharply reduce this massive trade deficit. We must generate more value-added national product, put more Americans to work, earning and saving more, and thereby reduce this Federal Government deficit that cannot be sustained.

We have only two choices on cars and trucks, given the world we now live on. It is either quotas on imports with arbitrary allocations for individual foreign manufacturers, or it is domestic content legislation and wide-open competition.

With Domestic Content, all manufacturers around the world are free to come to America, design and build a car of their choice, and win the largest share of domestic sales they can earn. The work and wealth created will occur here where it is needed and where the car buyer's purchased price will recycle back through our economic system to provide downstream economic benefits, wealth and jobs for that very same car buyer.

We Americans must stop fighting ourselves. We must not allow foreign countries to drain away our national wealth and productive capacity. We must fight to keep the best jobs here in America, because our national family of workers and their children must have such jobs in the future.

We in America carry unique leadership burdens in this world. Our worldwide defense commitments reveal this in very stark terms. We must act now to preserve and build America's economic strength. We must avoid a looming financial catastrophe, but that can only be done if we can work and earn our way back to financial solvency.

We must end the trade deficit and seek a balance of trade. Domestic content will bring our jobs back home, bring our dollars back home, and give this generation and future generations the chance to work and earn the living standard they deserve.

This is not the Japanese Diet, it is the U.S. Senate. Our commitment here is not to Japanese workers and foreign companies; it is to our own nation and our own people.

We must stop this trade invasion now, while we still have the strength to do so, and that is what this legislation will accomplish.

Thank you, Mr. Chairman.

The CHAIRMAN. Don, I know you and I disagree on this, but let me congratulate you on a very eloquent and well thought-out statement.

Jack?

## OPENING STATEMENT BY SENATOR DANFORTH

Senator DANFORTH. Mr. Chairman, thank you very much. I do have a prepared statement which I will read.

Few have been more deeply concerned about the health of American autoworkers and suppliers than this Senator from Missouri, but I believe that domestic content legislation would do more harm than good. It would not solve the industry's problems and it could do major damage to the U.S. economy.

Representing Missouri, the second largest auto producing State, I am all-too-familiar with the devastating effect of the auto industry's decline on local economies: In 1978, more than 40,000 Missourians worked in auto production and related jobs; 3 years later, almost half those jobs had been lost—with fewer than 21,000 jobs surviving. In that same period, auto production in Missouri dropped by almost two thirds, relegating it to the rank of sixth in the roster of producing States.

It was for these reasons that I joined with Senator Bentsen in 1981 in introducing legislation that led to the current limits on imports of Japanese autos. At the time we recognized that imports were not the only cause of the domestic industry's distress—there was more than enough blame to go around. But our purpose was not to scapegoat, but rather to provide the U.S. industry enough breathing room to get back on its feet; time for management and labor to pull in their respective belts, to cut costs and to retool; and time for interest rates to go down and for the market for cars to strengthen.

Today, we find the U.S. auto industry coming out of its tail-spin. Last year found the U.S. auto industry making record profits; car sales are up; unemployment in the auto industry is way down. In my State of Missouri, production is edging upwards, employment has moved from a low of 20,000 in 1982 of almost 28,000 earlier this year, and we have regained our status as No. 2.

These improvements have come about for a number of reasons, but primarily because in the past 3 years we have been able to create a better economic climate in which the industry could recover. The recovery in the auto industry is delicate, and is in great danger of being jeopardized by shortsighted decisions on the part of labor and management and by the burgeoning Federal budget deficit. But if there is one trade proposal less likely to help the U.S. auto industry and more likely to throw a monkey-wrench into the rest of the U.S. economy, it is the domestic content bill.

Domestic content legislation would require that up to 90 percent of the cars sold here be made in the United States. On its face, the idea is appealing—but looks are deceiving. I have worked very hard to protect U.S. auto jobs and to help the industry recover. This bill would not help, in my judgment; higher car prices alone would exacerbate the "sticker shock" problem and depress sales. And in a failed effort to help the auto industry, we would be dealing a body blow to American exports.

This impact would come about in two forms: imitation and retaliation. Our most competitive export industries would be faced with a proliferation of performance requirements abroad—this at a time when we are actively trying to keep other countries from imposing more investment restrictions on U.S. companies. The severe and permanent impact of a domestic content law would guarantee retaliation by our major trading partners. By building a fence around our market, we invite other countries to close off theirs—just as the United States is beginning to take a much tougher approach to open markets abroad, to increase sales abroad, and to create jobs through exports.

That the sectors that would be most severely impacted are our greatest hope for the future is clear: Four of five new manufacturing jobs created between 1977 and 1980 were directly related to exports. Chemicals, aerospace, electrical machinery, high technology, services—these sectors are the ones from which tomorrow's job will come—not domestic content legislation. One out of every 3 acres in our country is producing food for others to eat—with more than half of our wheat, soybeans and rice, and more than a third of our feed-grains, cotton and tobacco going to foreign markets. Not surprisingly, then, if one takes into account the effects of foreign retaliation, the passage of domestic content legislation could result in a net job loss for the United States of over 60,000 jobs.

Domestic content legislation will not help our auto industry. If the present temporary limits on car imports were needed to enable the industry to retool, then domestic content legislation—a severe permanent quota—is a declaration of surrender by an industry that believes it cannot compete. That is an assumption with which I cannot agree. Many American autoworkers are as dedicated as their foreign counterparts. Our automobile manufacturers are capable of great strides to increase efficiency and quality in the U.S. industry.

Finally, it is worth noting the weakest reason of all for supporting domestic content legislation—the send-a-signal-to-the-Japanese school of feeble excuses. For those who claim they support content legislation because the Japanese market is closed to U.S. exports, it is worth asking if an open Japanese market would put an end to their push for a content law. Better yet, it is worth asking if passage of domestic content legislation is likely to make one iota of difference in U.S. access opportunities in Japan.

Moreover, the "send a signal" argument is a poor excuse for starting a trade war. We have been sending signals for far too long—with little to show for our rhetoric. Where there is a problem of access to the Japanese market—and I believe there is a severe one—then we should be acting aggressively to get those barriers removed. Whether the answer is reciprocity legislation, more GATT cases or retaliation is another question. Clearly, domestic content is not the answer.

I have, though, some more brief comments that I would like to make on an informal basis.

Mr. Chairman, this is, indeed, a pocketbook issue. This is an issue which has economic consequences for the American people. It is alleged that this is a bill which would have favorable economic consequences for some people in our country, particularly for employees of the auto companies.

Maybe that is so and maybe that is not so. I think that it is also a matter beyond dispute that the domestic content bill, if it were enacted into law, would have very serious adverse economic effects on other people in this country. For example, those who buy cars.

I think, Mr. Chairman, that beginning in 1981, I have probably done as much for the auto industry as anyone in the Senate. The voluntary restraints which were agreed to by Japan were direct result of the quota bill I introduced back in 1981. It is clear that that quota bill had minuses as well as pluses. And, as the Brookings Institution has estimated, the minimum cost of the quota of the voluntary restraints to consumers of automobiles is about $400 per car. That is the minimum figure I have heard.

If domestic content legislation is passed, over and above the cost of the voluntary restraints, another $333 to $1,000, depending upon who you listen to, would be imposed on the purchasers of cars. So one way to look on this bill is to ask yourself the question: Should we attempt to confer an economic benefit on the auto workers by imposing a cost of $300 to $1,000 over and above what we have already done in trade restraints on the American public as as a whole? Should we sock it to the consumers? Should we take money out of the pockets of people who buy cars for the sake of this bill? That is the question before Congress.

Other people who would be hurt by this legislation—and we will have testimony on that, I think, later today—other people who will be hurt are those whose livelihoods depend upon exports.

Mr. Chairman, there is no free lunch in international trade. There is no policy that can be followed by the United States which will not be either retaliated against or emulated by other countries. And that is why, for example, foreign groups are so strongly opposed to domestic content legislation.

I think it is fair to say that every foreign group in this country has taken an official position against domestic content legislation. Why? Because farmers are absolutely dependent upon exports; 1 out of every 3 acres planted in this country are planted for the export market.

I have other constituents who would be deeply affected, people who are dependent upon exports for their livelihoods. For example, the largest employer in the State of Missouri is McDonnel Douglas. McDonnel Douglas in 1982, which are the latest figures I have, had $2.76 billion in exports, accounting for 28 percent of the sales of that company.

Monsanto, $864 million in exports. Emerson Electric, $460 million in exports. What would I say, Mr. Chairman, to the people who work for these companies and are counting on the help of these companies for their livelihood? That we are just going to forget about them, we are going to sock it to them, sock it to the farmers, and sock it to the people who buy cars, in order to help people who happen to work for auto companies?

Those who advocate industrial policy tell us that the Federal Government should be in a position of picking winners and losers. That is what Government should do. We should pick winners losers. It is said we should not let the marketplace work. We in Government should make the choices. We should choose who will win and who will lose.

What basis is there, Mr. Chairman, for saying as a matter of Government policy, as a matter of law, that we will choose the auto industry as the winner and the consumer as the loser; that we will choose the farmer as the loser; choose the McDonnel Douglas employee as the loser; or the Monsanto employee as the loser; or the Emerson Electric employee as the loser?

Why should we, in the Government, take their jobs from them? Why should we take money from their pockets? Why should we take food and clothing from their families? How can we in Government presume to make such a choice?

If we were to make such a choice, is this the time to make it for the auto industry? The auto industry in 1983 had record profits. In 1984, the auto industry will have larger profits than it had in 1983. Is the U.S. auto industry such a weakling that we need to profit up at everyone else's expense, at the expense of everyone who wants to buy a car or who wants to work in a field which exports something?

I do not think that the farmers are having record profitability. Good farmers are losing their farms right now. How can we say to them that we not only want them to spend more on the vehicles they must have for farming, but we will create a policy which will cost them their export market?

Finally, I think one of the questions that should be asked today is the same question that was asked in one of the most recent aids that we furnish the auto industry; namely, the Chrysler bailout.

What will happen in the companies and what will happen with the auto workers by way of comparable sacrifices that they are going to make?

All of us have seen these stories of the fabulous bonuses paid to the officers of the auto companies. How, in the light of those bonuses, can we ask the consumer to cough up an additional $300 to $1,000 per car? How, in light of those fabulous bonuses, can we ask the employees of McDonnel Douglas, Monsanto, Emerson Electric, or anyone else depending on exports, to put their jobs in jeopardy?

I do not understand it, Mr. Chairman. I have tried to help the auto industry. I have worked on it as hard as anyone in the Senate, but I do not understand a policy of trying to help some people by hurting others, and that is what we are being asked to do here. We are being asked to help some people, not by helping the public at large, but by hurting other people; hurting them in the pocketbook. And that is the very essence of special interest legislation, and it is wrong.

The CHAIRMAN. Senator Gorton.

### OPENING STATEMENT BY SENATOR GORTON

Senator GORTON. Thank you, Mr. Chairman. I, too, have a statement for the record.

I would like to elaborate on the remarks of the other speakers, beginning by saying that the final point made by my friend, the Senator from Michigan, was entirely correct. This is not the Japanese Diet. We are not here to ask Americans to sacrifice so that the Japanese can manufacture and export more goods, automobiles or otherwise.

We are here to deal with this legislation in the interests of the United States. The validity of the point made by the Senator from Michigan leads inevitably to the position taken by the Senator from Missouri. When we judge what is best for the United States, we will reject this legislation.

As the Senator from Missouri has pointed out, even the temporary quota system has added some $400 to the average cost paid by every citizen of the United States who has purchased an automobile in the course of the last 3 or 4 years. It has been accompanied by a very strong and very welcome recovery on the part of the domestic auto industry—which is now here asking for relief—and for added expenses to consumers which are much greater than those caused by the quotas and which are permanent in nature.

Evidence of the fact that money will be spent on high executive salaries has already been shown, and no doubt on collective bargaining arrangements which could not be made in a free market, subject to the discipline of imports. So we are asking for a permanent subsidy on the part of every American who purchases a new automobile for one industry, at the expense of others.

What happens when Americans spend $400 more per automobile than they would in a free market, or $1,000 more for an automobile than they would in a free market? The obvious answer, Mr. Chairman, is they don't have that money to spend on someone or something else.

Even leaving aside our export industries and the retaliation which will inevitably take place, that money is being funneled away from some other manufacturer, some other producer of goods or services in the United States into a protective automobile industry. It lowers the standard of living of every consumer, and it adversely impacts literally every other domestic business in the United States to pay more for automobiles than we ought to pay.

Perhaps even to a greater extent than is the case in Missouri, the State which I represent—like that of the chairman, both of which have major seaports directed at Asia—my State is dependent on foreign trade. The overwhelming majority of all of the agricultural products produced in the State of Washington are exports, and my farmers, just as those of the Senator from Missouri, vehemently and deeply oppose legislation of this sort, because they know how that would restrict their markets overseas.

My largest manufacturer is the Boeing Co., which lives by successful competition with overseas manufacturers of aircraft. It and its employees would be asked to sacrifice bitterly and brutally for the passage of this legislation, this choosing of one kind of industrial enterprise to be preferred over all others.

The logic of the Senator from Michigan would lead not simply to restrictions or, for that matter, for all practical purposes, the banning of automobiles built overseas, it would inevitably and logically lead to the banning of almost any imports of any kinds of goods which could be produced in the United States at any cost whatsoever.

Yet, nations have been attempting that kind of "beggar thy neighbor" policy for hundreds and hundreds of years, and it always ends up being tougher on the nation which practices that than it is on its neighbor.

So, Mr. Chairman, I agree with the Senator from Michigan. We should deal with this bill not in the interests of the people in Japan or any other nation, but for those of the United States, because we are all consumers. We all need jobs, and we are all advantaged by competition, because the United States will have more jobs and a stronger economy if we reject this legislation. That is precisely what we should do.

The CHAIRMAN. Senator Long?

Senator LONG. No opening statement, Mr. Chairman.

[The bill follows:]

II

98TH CONGRESS
1ST SESSION

# S. 707

To establish domestic content requirements for motor vehicles sold or distributed in interstate commerce in the United States.

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## IN THE SENATE OF THE UNITED STATES

MARCH 8 (legislative day, MARCH 7), 1983

Mr. RIEGLE (for himself, Mr. LEVIN, Mr. FORD, Mr. METZENBAUM, Mr. EAGLETON, Mr. RANDOLPH, Mr. SARBANES, Mr. PROXMIRE, Mr. LAUTENBERG, Mr. CRANSTON, Mr. GLENN, Mr. KENNEDY, and Mr. HOLLINGS) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

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# A BILL

To establish domestic content requirements for motor vehicles sold or distributed in interstate commerce in the United States.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE.**

This Act may be cited as the "Fair Practices in Automotive Products Act".

**SEC. 2. PURPOSE.**

The purpose of this Act is to encourage the production in the United States by American workers of automotive products which are sold or distributed in interstate commerce.

### SEC. 3. DEFINITIONS.

(a) IN GENERAL.—As used in this Act—

(1) The term "automotive products" means motor vehicles and parts for use in the production of new motor vehicles.

(2) The term "added domestic value", when used with respect to a vehicle manufacturer for any model year, means the aggregate of—

(A) the production costs of all automotive products sold by the vehicle manufacturer in the United States, other than for export, during that model year, and

(B) the export value of all automotive products that were either—

(i) manufactured by the vehicle manufacturer in the United States and exported from the United States by, or on behalf of, such manufacturer during that model year, or

(ii) manufactured in the United States by any other person and purchased by the vehicle manufacturer and exported from the United States by, or on behalf of, such manufacturer during that model year, but only to the extent that the export value of such automotive products is not included in automotive products to which clause (i) applies;

reduced by the aggregate appraised value, as determined for purposes of the customs laws, of all automotive products that were entered by, or on behalf of, the vehicle manufacturer during that model year.

(3) The term "domestic content ratio" means, with respect to a vehicle manufacturer for any model year, the percentage determined by multiplying by one hundred the factor obtained by dividing—

(A) the added domestic value determined for that manufacturer for that model year under paragraph (2); by

(B) the production costs determined, for purposes of paragraph (2)(A), for that manufacturer for that model year.

(4) The term "entered" means entered, or withdrawn from warehouse for consumption, within the customs territory of the United States.

(5) The term "model year" means a vehicle manufacturer's annual production period (as determined by the Secretary) which includes January 1 of a calendar year, or if a vehicle manufacturer does not have an annual production period, the calendar year. A model

year shall be designated by the year in which January 1 occurs.

(6) The term "motor vehicle" means any three-wheeled or four-wheeled vehicle propelled by fuel which is manufactured primarily for use on the public streets, roads, and highways (except any vehicle operated exclusively on a rail or rails), and which is rated as ten thousand pounds gross vehicle weight or less. Such term does not include (A) any motorcycle, or (B) any vehicle determined by the Secretary to be an automobile capable of off-highway operation within the meaning of section 501(3) of the Motor Vehicle Information and Cost Savings Act.

(7) The term "production cost" means, with respect to an automotive product, the wholesale price to dealers in the United States for that product as set forth in the vehicle manufacturer's official dealer price list that is in effect at the time the product is sold at wholesale.

(8) The term "Secretary" means the Secretary of Transportation.

(9) The term "vehicle manufacturer" means any person engaged in the business of producing motor vehicles for ultimate retail sale in the United States and includes as one entity all persons who control, are con-

trolled by, or are in common control with, such person. Such term also includes any predecessor or successor of such a vehicle manufacturer.

(b) DETERMINATION OF ADDED DOMESTIC VALUE.—For purposes of applying paragraph (2) of subsection (a)—

(1) Two or more vehicle manufacturers may not include, for purposes of determining their respective added domestic values, the value of the same automotive product; but such manufacturers may, under rules prescribed under section 4(b), apportion the value of that automotive product among them.

(2) The term "export value" means, with respect to an automotive product—

(A) the free-on-board price for which the vehicle manufacturer sells the product for exportation from the United States; or

(B) if the vehicle manufacturer sells the product for such exportation to a buyer that controls, is controlled by, or is under common control with, such manufacturer, the price at which such or similar products are freely offered for free-on-board sale to all purchasers in the principal markets of the United States in the usual wholesale quantities and in the ordinary course of trade for such exportation.

**SEC. 4. DOMESTIC CONTENT RATIOS FOR MODEL YEAR 1985 AND THEREAFTER.**

(a) RATIOS.—In order to carry out the purpose of this Act, for each model year beginning after January 1, 1984, the minimum domestic content ratio for a vehicle manufacturer shall not be less than the higher of—

(1) the domestic content ratio achieved by the vehicle manufacturer in model year 1984 reduced by 10 per centum; or

(2) the applicable minimum content ratio specified in the following table:

| Number of motor vehicles produced by the manufacturer and sold in the United States during such year: | Minimum domestic content ratio: |
|---|---|
| Model Year 1985 | |
| Not over 100,000 | 0 percent. |
| Over 100,000 but not over 900,000 | The number, expressed as a percentage, determined by dividing the number of vehicles sold by 30,000. |
| Over 900,000 | 30 percent. |
| Model Year 1986 | |
| Not over 100,000 | 0 percent. |
| Over 100,000 but not over 900,000 | The number, expressed as a percentage, determined by dividing the number of vehicles sold by 15,000. |
| Over 900,000 | 60 percent. |
| Each Model Year After Model Year 1986 | |
| Not over 100,000 | 0 percent. |
| Over 100,000 but not over 900,000 | The number, expressed as a percentage, determined by dividing the number of vehicles sold by 10,000. |
| Over 900,000 | 90 percent. |

(b) ALLOCATION OF AUTOMOTIVE PRODUCTS AMONG MANUFACTURERS.—In order to carry out the purpose of this

Act, the Secretary shall prescribe rules or allocating automotive products among vehicle manufacturers in appropriate cases such as where—

(1) a vehicle manufacturer sells automotive products manufactured by it in the United States to another vehicle manufacturer;

(2) two or more vehicle manufacturers in joint venture produce automotive products in the United States; and

(3) a vehicle manufacturer produces motor vehicles for ultimate retail sale in the United States, some of which will be sold by that manufacturer and some by another vehicle manufacturer.

### SEC. 5. INFORMATION AND REPORTS.

(a) VEHICLE MANUFACTURERS RECORDS AND INFORMATION.—Each vehicle manufacturer that produces more than one hundred thousand motor vehicles for sale in the United States during any model year after model year 1983 must establish and maintain such records, and provide such information, regarding the production and sale of automotive products by it as the Secretary by rule shall require for purposes of carrying out section 4(a) and the enforcement provisions of section 6.

(b) AUTHORITY TO OBTAIN INFORMATION.—(1) The authority granted to the Secretary under subsection (b)(1) of section 505 of the Motor Vehicle Information and Cost Saving Act (as in effect on the date of the enactment of this Act) to obtain information and data, and access thereto, that is deemed advisable by him for purposes of carrying out part V of that Act may be used by the Secretary for purposes of obtaining the information and data, and access thereto, that is necessary or appropriate to carry out section 4(a) and section 6.

(2) The authority granted to the district courts of the United States under subsection (b)(2) of such section 505 to enforce compliance with action taken by the Secretary under subsection (b)(1) of such section may be used by such courts to enforce actions taken by the Secretary pursuant to paragraph (1) for purposes of carrying out this Act.

(3) The Secretary shall disclose any information and data obtained under this subsection and subsection (a) to the public only in accordance with section 552 of title 5, United States Code; and any matter described in subsection (b)(4) of such section shall not be disclosed to the public, except that where such matter may be relevant to any administrative or judicial proceeding to enforce this Act, such matter may be disclosed in such proceeding only in a manner which would not result in competitive damage or disadvantage, as determined by the Secretary or a court, because of such disclosure.

(c) ANNUAL REPORTS.—As soon as practicable after the close of each model year after January 1, 1984, the Secretary shall prepare and make available to the public a report setting forth the domestic content ratio achieved by each vehicle manufacturer during such model year.

## SEC. 6. ENFORCEMENT.

(a) PENALTY FOR FAILURE TO MEET DOMESTIC CONTENT RATIOS.—(1) In furtherance of the purpose of this Act, it is unlawful for a vehicle manufacturer to fail to meet for any model year the applicable minimum domestic content ratio required under section 4(a).

(2) If the Secretary finds, after notice and an opportunity for a hearing in accordance with section 554 of title 5, United States Code, that a vehicle manufacturer has violated paragraph (1), the Secretary shall issue an order prohibiting the vehicle manufacturer from entering, or having entered on its behalf, during the twelve-month period beginning on the date on which the finding becomes final—

(A) a quantity of motor vehicles that exceeds the total quantity of motor vehicles that was entered by, or on behalf of, that manufacturer during the model year in which such violation occurred reduced by the number of motor vehicles that bears to such total quantity the same percentage by which the vehicle manufacturer failed to meet the domestic content ratio for that model year; and

(B) parts for motor vehicles in an aggregate value (as appraised for purposes of the customs laws) that exceeds the total aggregate appraised value of parts for motor vehicles that were entered by, or on behalf of, that manufacturer during the model year in which such violation occurred reduced by parts of an aggregate value that bears to such total aggregate value the same percentage by which the vehicle manufacturer failed to meet the domestic content ratio for that model year.

(3) An order issued pursuant to paragraph (2) shall specify the total number of motor vehicles and the aggregate appraised value of parts for motor vehicles that may be entered during the applicable twelve-month period by, or on behalf of, the vehicle manufacturer.

(4) Any person against whom an order is issued under paragraph (2) may, within sixty calendar days after the date of the order, institute an action in the United States court of appeals for the appropriate judicial circuit for judicial review of such order in accordance with chapter 7 of title 5, United States Code. The court shall have jurisdiction to enter a judgment affirming, modifying, or setting aside in whole or in part, the order of the Secretary, or the court may remand the

proceeding to the Secretary for such further action as the court may direct.

(b) OTHER VIOLATIONS.—(1) Any person who knowingly violates any provision of this Act (other than failure to meet the applicable domestic content ratio for any model year) or any rule or regulation issued under this Act shall be liable, after notice and opportunity for a hearing, to the United States for a civil penalty of not more than $10,000. Each day of a continuing violation under this subsection shall constitute a separate offense.

(2)(A) Before issuing an order assessing a civil penalty against any person for violation of paragraph (1), the Secretary shall provide to such person written notice of the proposed penalty.

(B) The Secretary shall promptly assess such penalty, by order, after the date of the receipt of the notice under subparagraph (A) of the proposed penalty.

(C) If the penalty has not been paid within sixty calendar days after the assessment order has been made under subparagraph (B), the Secretary shall institute an action in the appropriate district court of the United States for an order affirming the assessment of the civil penalty. The court shall have authority to review de novo the law and the facts involved, and shall have jurisdiction to enter a judgment enforcing, modifying, and enforcing as so modified, or setting aside in whole or in part, such assessment.

(D) If any person fails to pay an assessment of a civil penalty after the appropriate district court has entered final judgment in favor of the Secretary under subparagraph (C), the Secretary shall institute an action to recover the amount of such penalty in any appropriate district court of the United States. In such action, the validity and appropriateness of such final assessment order or judgment shall not be subject to review.

(3) The Secretary may compromise, modify, or remit, with or without conditions, any penalty that is subject to imposition or that has been imposed under this subsection.

## SEC. 7. STUDY OF DISCRIMINATORY PRACTICES AFFECTING DOMESTIC PRODUCTION OF MOTOR VEHICLE PARTS.

Within one year after the date of the enactment of this Act, the Secretary and the Federal Trade Commission shall jointly undertake an investigation, and submit to Congress a written report, regarding those policies and practices of vehicle manufacturers that are used to persuade United States motor vehicle dealers, in choosing replacement parts for motor vehicles, to favor foreign-made parts rather than domestically produced parts. Such report shall include, but not be limited to, recommended administrative or legislative action that the Secretary and the Federal Trade Commission consider appropriate to assure that domestic producers of replacement parts are accorded fair access to the United States market for such parts.

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The CHAIRMAN. Our first witness today will be Senator Chafee from Rhode Island. Let me say again, before John starts to testify, we have four hearings set: two here, one in Portland, OR and, one in Des Moines, IA. I frankly picked the latter, because it is a good cross-section of both a relatively large UAW membership and a State interested in agricutural exports.

I picked Portland, OR, not only because of my personal interest, but because about 90 percent of all the wheat we grow in Oregon is exported, and the Port of Portland is the port of entry for Toyota to serve about 27 States, and there are about 9,000 jobs directly and indirectly dependent on imports and exports. It is not UAW membership, but it is union membership, mostly Teamsters and some Longshoremen.

I have told Senator Riegle, that if he would like to have a hearing in Detroit, we could have it. I do not want to delay these beyond as many hearings as needed. Also, Don if you want a markup, we will have a markup and we will have a vote in this committee.

I would simply ask the witnesses to realize that most of us have been through this subject and know it reasonably well, and we would prefer that you not read your statements in toto, because I can assure you there are many, many questions everyone on this panel wants to ask.

Senator CHAFEE.

## STATEMENT OF HON. JOHN CHAFEE, U.S. SENATOR FROM RHODE ISLAND

Senator CHAFEE. Thank you, Mr. Chairman and members' of the committee. I will be brief.

Mr. Chairman, this legislation has but one basic purpose: To restrict sharply the number of Japanese-built cars coming into the United States, and thus deprive the American public of the freedom of choice they now have to buy either an American or a Japanese automobile.

Now, the American public likes Japanese-built cars, and they have clearly demonstrated that in the best place of all—in the marketplace. The American public likes the reliability. They like the quality and the low gas mileage and price of Japanese cars. And so they buy these automobiles.

This legislation would deprive the American public of that option. It would restrict the American public to buying almost only American cars and paying a higher price for those vehicles, as has been pointed out by the committee members' statements. Since there would be a protected market, there would be little incentive for American producers to hold down prices.

In short, Mr. Chairman, this is a blatantly anticonsumer bill. The theory of this iniquitous piece of legislation is, if you want to sell it here, make it here. Now, that is an interesting concept and maybe it is great for the UAW and its members, but what happens to Boeing workers?

As the Senator from Washington pointed out, any Boeing aircraft sold in Japan would have to be made there, and all IBM machines and all Camel cigarettes and Procter & Gamble products, would have to be made in Japan as well.

Mr. Chairman, this is a Cross pen, made in the State of Rhode Island. It is sold in Japan. We have a very large export for these types of Cross pens in Japan. Now, what this legislation would say is, this pen must be made in Japan. Our workers in Rhode Island, who are making half of what a UAW worker is making, would have to give up his job. He would be sacrificed—too bad—in order to protect the United Auto Workers in their jobs.

Of course, the Japanese will retaliate. I have heard some statements suggesting here there would be no retaliation. They will retaliate, and well they should.

Mr. Chairman, perhaps we could be forgiven if we had never been in this situation before, with harshly protectionist measures before us, if we didn't know what the consequences might be. But, Mr. Chairman, what we have here is an erie replay of 1930 when an indignant Congress, flailing out against imports, passed the infamous Smoot-Hawley Tariff to protect American jobs.

We kept out other nations' products. If they wanted to sell it here, they had to make it here. Those nations immediately retaliated, and the recession was turned into a worldwide Great Depression with untold hardship for all American workers.

Mr. Chairman, we all recognize that there could be an unusual case here that merited extraordinary action despite the adverse consequences to millions of other American workers, to all of the American consumers, and to our Nation. Perhaps we have here a crippled industry. Perhaps we have executives suffering unusual deprivation.

Perhaps we have workers laboring under scandalously difficult conditions, with no benefits, and at minimum wage. Perhaps we do have a situation meriting this draconian reaction. Now, is this the American automobile industry? Let us take a look.

Chrysler, first quarter 1984. They made more money in that one quarter than they have ever made in any entire year in their history. GM and Ford each had the highest quarter in their history in 1984. Total profits for the industry in 1983, $6.1 billion, the largest profits for the industry in its history. And in 1984, this year, the profits will not be $6 billion, the highest in the history they are predicted to be $10 billion. How about that? They are doing pretty well, I would say.

Now, so much for the industry. What about the executives? Are they starving? Let us take a look. Each of General Motors' top executives broke the million dollar compensation barrier with their salaries and bonuses last year. The compensation for GM's chairman totaled $1.5 billion—million, excuse me. Next year. Next year they will reach a billion.

Not bad, $625,000 in salary, $433,000 in bonuses, and some more in stock options. GM paid 5,800 executives over $181 million in bonuses. Ford: over 6,000 executives divvied up over $80 million in bonuses. But what about the workers? That is what we will hear a lot about. Let us look at the workers. How are they making out?

Mr. Chairman, the American autoworker is the economic royalist of the American work force. He averages more than $22 an hour in wages and fringe benefits. Compare this, Mr. Chairman.

There they are, over $22 an hour with wages and fringe benefits, compare this to the national manufacturing wage plus fringes of less than $13 an hour.

Are these workers prepared to help themselves in competing with the Japanese? Are they going to reduce their wages in order to reduce the cost of the product they make so they can sell more automobiles and compete better? Are they going to do all of this to help their fellow laidoff workers get back to work? Not on your life. The American auto workers aren't going to take any cuts, not in their wages, not in their age 55 with 30 years work retirement, not in their first dollar coverage for all medical care.

What is the war cry for the UAW as this year's negotiations come up? "Restore and More in 84." Are these the people we are going to sacrifice the workers in my State for?

Mr. Chairman, in conclusion, we have a prosperous industry with executives wallowing in high salaries and bonuses, workers who make far more than any other American workers. What they are saying to their fellow Americans: You are to be restricted in your choice of a car. You are to pay more for any car which you do buy because we don't want to compete, and if it costs you your job making products for export, that is too bad.

I do hope, Mr. Chairman, that this committee will reject this greedy piece of legislation. Thank you very much.

The CHAIRMAN. The audience will restrain themselves.

I take it, John, you are undecided on this piece of legislation.

Senator LONG. Mr. Chairman, point of order. I think you should tell the audience they are not permitted to demonstrate. It seems to me—I have an open mind on this piece of legislation, but in fairness those who do not agree with Senator Chafee will have their turn to testify, and I just do not think that you ought to permit demonstrations in the committee room.

The CHAIRMAN. The point is well taken, and I will not allow the hearing to turn into a boo-hooray hearing. We will take questions in the order of appearance, Senator Danforth first.

Senator DANFORTH. Thank you very much, Mr. Chairman.

Thank you, Mr. Chafee, for your comments. I have no questions.

The CHAIRMAN. Don?

Senator RIEGLE. Senator Chafee, I would welcome you as a cosponsor to the legislation should you have a change of heart. We have a number of other witnesses to come, so I will make only a few observations about your testimony.

I think it is important to get beyond the clever phrases on either side of the argument to try to really get down to the question of what is happening in the aggregate. The fact is, we are running a $120 billion trade deficit this year, of which cars and trucks are only one part, a substantial part, but only one part. So this is a problem going way beyond the auto industry. That deficit represents economic strength being drained out if our country. That is net of all we sell abroad. We are $120 billion annually upsidedown on that account.

So it is an enormous problem, and I want to make just two observations about it. I am delighted that you are able to make and sell fountain pens or ball point pens or whatever kind of pens they are that you manufacture in Rhode Island, but I think it would be a mistake for you to somehow view the value of trade in the pens as important as it may be on a only one-for-one basis with trade in automobiles and other products across the board. I am for our selling as much in Japan as we can, but we don't sell much, as you know, and on balance this year the trade deficit with Japan even after they buy your pens is $30 billion.

So, to take maybe a $2 pen or a 50 cent pen or a $10 pen or even a $50 pen and put it beside a product that may cost $8,000 or $10,000 or $12,000, that ends up yielding the Japanese a net advantage in the trade account of $30 billion a year coming out of the whole country. That kind of logic does not hold up, and frankly, I want to tell you I think that the Japanese are delighted with that thinking. For them to hear that someone here thinks that that is fair trade, I mean, they are probably laughing so hard they cannot stand up, because that is exactly what they want us to believe.

I will make just one other observation, and that is, you talk about the health of the automobile companies. I wish they were as healthy as you describe them to be, because frankly I do not think that they are, but I would ask you not to take my opinion for that. Let me quote from today's New York Times' closing prices on the New York Stock Exchange, because it is really very shocking, and for a person with a serious business background and a former Governor, you will understand, I think, the significance of what I am about to point up here.

If you look today, at a time when the auto industry is having very high sales and profits after a long, hard period of years, you will find that the way the financial market, which is the composite of all the financial opinion in the country and all around the world, is viewing the auto companies and their prospects, you will find something that I have never seen before in contemporary history.

If you look today, for example, at the price of Ford Motor Co., it was selling for 34⅞ at the close yesterday. It is selling at two times earnings. It is the lowest multiplier in a condition of recovery that we have ever seen. The same is true for Chrysler. They are selling at two times earnings. General Motors, which is the premier company in terms of market share, and which has roughly half the market, is selling at four times earnings.

Now, what this means as you well know is that the composite of opinion in the financial markets is that the future of the auto industry is very much in doubt. It is in very grave jeopardy. Otherwise, the stocks would be selling at much higher multiples, much closer to the average for other stocks that make up the stock exchange listings.

If you take, for example, other companies which are basic industry companies, firms like Kellogg, the Heinz company, or others, you will find they are selling at nine or ten times earnings today. There is no particular excitement in their individual corporate stories, but I cite that as an example of the fact that sophisticated financial opinion in this company has an enormous sense of alarm about the auto industry, and frankly, those multipliers say more about what is expected up ahead than any amount of polemics on either side of this argument.

So I just ask you to consider that, because I think it is a warning signal, something we should pay attention to while we still have time.

Senator **Chafee**. Thank you.

The **Chairman**. Senator Gorton?

Senator **Gorton**. No questions.

The **Chairman**. Senator Long?

Senator **Long**. No questions.

The **Chairman**. Thank you very much, Senator Chafee, for coming.

Senator **Chafee**. Thank you very much.

[The Statement follows:]

### STATEMENT OF HON. JOHN H. CHAFEE, U.S. SENATOR FROM RHODE ISLAND

Mr. President: The press has been full of articles in the last several weeks focussing on the foreign trade concerns of one of the nation's most important industries, the auto industry.

There have been articles about the effects of Japan's self-imposed auto quotas, about the economic recovery of the U.S. industry, its enormous profits and its extraordinary levels of executive pay and bonuses. There have been articles about the Japanese industry's not-so-veiled indications that it just might be "nice" to us and continue the quotas after they expire in March 1985, and about the large investment being made here by Japanese auto companies. Ant there is much editorial comment, too, about what surely seems to be one of the hotest topics in the economic news.

No wonder. The vitality of the auto industry is important because its employment, its gross sales, its impact on our way of life is so important. Consumers care deeply about the cost, quality, safety, and environmental soundness of their cars, and care very much.

Well, the existing "temporary" quotas on Japanese cars are nothing compared to the domestic content bill being heard today in the Senate Commerce Committee.

That protectionist blockbuster—perhaps the worst threat to world trade since the disastrous Smoot-Hawley Tariff Act of 1930—passed the House last November 11 by a vote of 219 to 199, and is said to have about 25 supporters in the Senate. It is a threat to those millions of American consumers who are buying high quality, reliable, fuel-efficient Japanese cars. It is a threat to the economy at large, and a threat to the competitive vitality of our own domestic auto industry.

Fortunately, a large number of private organizations, economists, and newspapers editorialists have grasped the nature of this threat to our collective well-being and responded.

One hundred organizations and companies representing millions of American consumers, workers, farmers, manufacturers, and other business people across this country have joined in opposition to S. 707.

And one hundred economists, including three Nobel Laureates, have joined to urge that we reject S. 707.

At least 50 publications have editorially opposed domestic content legislation, ranging from the Arizona Republic to the Wall Street Journal.

Now, what's everybody so concerned about; why all the fuss?

S. 707, the "Fair Practices in Automotive Products Act" would require that by 1986 the overall fleet sold by any manufacturer in the United States consist of a fixed percentage of U.S. labor and U.S. parts. That percentage would be 90 percent for manufactureres that sell more than 900,000 vehicles, proportionally down to 10 percent for manufactureres that sell 100,000 vehicles.

It is important to understand that the bill is a very elaborate device to arrive at the imposition of quotas. If a manufacturer fails to meet the prescribed limits, allowed imports could be reduced to as few as 100,000 vehicles. Consumer choice would be severely restricted, particularly for the smaller Japanese cars that account for about 50 percent of all small car sales, and 26 percent of total U.S. consumption in 1983.

So the reason for all the fuss and worry is plainly and simply that the bill would close the vise on the American auto market. It would dictate to foreign manufacturers that if they want to sell cars here they have to make them here. It is deliberately skewed against the Japanese producers, who among them will in 1984 sell 1.85

million cars here, including about 730,000 Toyotas, and 650,000 Nissans. Very few non-Japanses makers ship us more than 100,000 units. Thus, S. 707 would permit the marginal foreign suppliers—mainly the Europeans—to continue to trade, but close out the major Japanese producers.

Mr. President, this morning a number of my colleagues and I will be discussing the domestic content bill and its harmful implications.

I will begin by making the arguments,

First, that the industry has used the "breathing space" provided by more than three years of quotas to recover with great strength from a period of trial, and

Second, that the domestic content legislation would hurt American jobs, consumers, and in other ways damage our eonomy and weaken our position among our trading partners,

First, auto company sales, profits, salaries, and employment have all increased. The industry had an excellent year in 1983 and will have a much better one in 1984.

Sales of domestic autos increased from 5.76 million units in 1982, the trough of the recession, to 6.8 million in 1983. Based on first quarter performance, CBO estimates sales will be 8.3 million in 1984.

With the increase in domestic production, and partly reflecting the effect of the quotas, the import share of the domestic market is expected to drop from 27.9 percent in 1982 to a projected 22 percent in 1984. Quotas have been one element of the drop in sales of imports. Another important contributor has been the fact that as fuel prices have stabilized, sales of intermediate and large cars increased from 2.9 million units in 1982 to 3.8 million units in 1983, illustrating that the large car buyer has returned to the market.

Industry profitability is up dramatically. According to Commerce Department data, industry profits in the first quarter should be about $2.7 billion. For 1984 as a whole, the industry should earn $9-10 billion. Chrysler earned more in the first quarter this year than in any full year in its history.

In 1983, GM's and Ford's earnings were each greater than in the last pre-recession year, 1978. While this is nominal income, not adjusted for inflation, it is nonetheless important because it was achieved with sales of almost one million fewer cars than 1978.

This booming profit picture has resulted in some extraordinarily self-indulgent behavior in the form of executive compensation,

Each of General Motors' top five executives broke the million-dollar compensation barrier with their salaries and bonuses last year.

Chairman Roger Smith's compensation package totaled $1.51 million: $625,000 in salary, $433,000 in cash bonus, and the remainder in options. Overall, GM paid 5,807 executives $181.7 million in bonuses last year, and Ford paid 6,035 executives bonuses totalling $80.6 million.

Their timing could not have been worse, because the auto industry is approching the most important event of the year—renegotiation of the United Auto Workers' contract with GM and Ford. These negotiations will begin in early summer, and are expected to conclude before the contract expires in September.

The wages, fringe benefits, and working conditions that emerge from these negotiations will have a number of major effects on the industry. Labor costs could increase significantly. As a result of the contract it signed in September 1983, for example, Chrysler's labor costs in the United States are expected to rise about 20 percent from $21 to $26 per hour over the next two years. Chrysler's settlement was just to catch up to GM and Ford. Their settlements will build upon this base and could be even more generous.

Obviously, the UAW is seeking a reversal to at least the 1979 levels. And why shouldn't they if they follow the examples of the executives? Their warcry is "Restore and more in '84."

The trouble is that these increases will make the auto worker twice as well-paid as the average American worker, and much better paid than his Japanese auto industry counterpart.

Profitability has come as the result of stringent cost reduction programs that increased plant productivity enormously. Unfortunately, the revitalized industry performance also come at the expense of jobs. But even here, the picture is looking much brighter. Employment in the motor vehicles and parts industries has been rising steadily from the bottom hit in the fourth quarter of 1982. In the corresponding period in 1983, employment was 827,000. It rose to 875,000 in the first quarter this year. Compared to the peak employment of 1,047,000 reached in the fourth quarter of 1978, the employment picture is not completely bright, but there has been a strong recovery even with the increased output per worker that has been achieved during the last few years.

Now let's look at some of the harmful effects of domestic content, and I would like to start with jobs.

Most often quoted is the finding of the Congressional Budget Office that though domestic content might result in some additional U.S. auto jobs, the net effect on U.S. employment would be a loss of 66,000 jobs.

A more recent study by the Commerce Department shows that S. 707 would increase the price of an average car by about $450. Japanese car sales here would decline by about one million units.

But American car makers would not be helped by the shortage of Japanese cars. On the contrary, the study shows that their volume would rise by less than 200,000, the result of negative consumer reaction to higher prices and reduced availability of the types of cars they prefer.

The Commerce Department study shows that the bill would result in gains in auto employment of 30,000, offset by direct losses at U.S. ports, dealerships, and at the U.S. facilities of Japanese auto companies of 23,500. And because imposition of domestic content would affect approximately $5.5 billion worth of Japanese exports to the U.S., the Commerce Department estimates that 132,000 U.S. non-auto workers could risk losing their jobs. Thus, at the very worst, the domestic content bill could result in the loss of as many as 125,000 American jobs.

In short, the cost of this industry's greed would be the jobs of many thousands of Americans in other fields.

One important area in which jobs would be lost would be the U.S. facilities of the Japanese producers. These cars are made very substantially of parts made abroad. Thus, were domestic content to become law, these plants would have to completely reorganize production or close. Honda and Nissan have indicated that they would close their production facilities were domestic content enacted. This would mean the direct loss of 4,000 jobs in these factories; an additional 3,000 jobs could be lost by their suppliers.

But since the Commerce Department study was made, Japanese producers here have announced further expansion of their domestic facilities. On May 10, Nissan announced plans to build as many as 100,000 subcompact cars a year in Tennessee, adding 1,100 additional workers to the 1,900 already employed there. And in March, Mazda announced a decision to build 250,000 passenger cars a year in the U.S. And Honda is now spending $240 million to expand its existing facilities, and to add 700 jobs to its workforce of 1,800. And it is well known that Toyota will enter a joint venture with GM to build 250,000 cars a year in California.

The point is that company spokesmen have testified that these job-producing U.S. investments would be terminated and the facilities closed if domestic content were to become law. Economists agree that it would be sensible economic behavior for the Japanese plant owners to close their operations as they have testified they would. Such a move would be consistent with the theory that a company attempting to sell in a permanently restrained market can only be expected to do so from its most efficient production base. The small volumes and higher production cost of U.S. operations under domestic content would disrupt the Japanese production system and would be uneconomic. These companies, it is argued, would therefore retreat from the U.S. and attempt to sell as much as permitted from foreign bases of operation.

What about the effects of domestic content on consumers?

The first and most immediate effect would be an increase in price and a sharp reduction in supply. The Wharton Econometric model predicts a 10 percent increase in price, or $450 a car, and the Commerce Department study agrees.

The cost to the consumer of artificially creating an additional 30,000 auto worker jobs would be about $4.8 billion, or $160,000 per job, a huge charge on the consumer.

The overall effect of domestic content on the consumer price index would be .16 percentage points, according to the Commerce Department analysis.

What about the effect of domestic content on our world trade position?

Trade experts agree that the domestic content legislation would be blatant violation of our international obligations under Articles III and XI of the GATT. S. 707, however, contains a provision that attempts to make domestic content GATT-legal, by declaring that auto imports have caused or threatened to cause injury to the domestic auto industry. This declaration contradicts the finding of the International Trade Commission, which has determined that auto imports are not the substantial cause of injury to the U.S. industry.

Because the cost of lost imports due to domestic content would be $5.5 billion according to the Commerce Department, retaliation in this amount would be a potential result.

The effect of retaliation on farm exports could be especially harmful, because Japan imports $6 billion of U.S. farm products each year from at least 30 U.S.

states. These states would be most likely to be hurt were domestic content to become law.

Far from encouraging the Japanese to agree to our pressing demands that they open their markets to more American products, domestic content would likely make the Japanese even more intransigent than they have been in the past. And indeed they would have good reason to be.

The growing importance of trade to our economy is often overlooked by Americans, but the facts speak for themselves.

The produce of one out of every three acres cultivated in the U.S. is shipped abroad, providing over a million U.S. jobs in the agricultural sector of our economy.

One out of every six American manufacturing jobs depends on exports. More telling, between 1977 and the onset of the recession in 1981, four out of every five new jobs in manufacturing in the U.S. were the result of American products destined for foreign markets.

In 1970, exports accounted for 4 percent of U.S. gross national product; by 1980 that figure had doubled to 8 percent.

Mr. President, domestic content is a dangerous threat. I have explained its threat to jobs, consumers, and to U.S. trade. But it has a much larger significance. It symbolizes a growing restlessness in the United States with the snail's pace of negotiations to knock down foreign trade barriers—especially those of Japan. Furthermore, the bill is a sign of the increasing political appeal of protectionist measures to shut foreign goods out of the market.

It is even more difficult to explain the nature of the import problem, and to resist the temptation of protectionism in the current economic climate. There is wide agreement that huge budget deficits result in high interest rates which have created enormous demand for the dollar. The very highly valued dollar at the same time damages our exports and encourages job-threatening imports.

This situation was reviewed by a Task Force of the Republican Senate Conference, which I chaired. The Task Force Report, which was adopted by the entire Republican Conference, found that

"Because our foreign trade problems stem largely from macroeconomic causes, we reject protectionist initiatives in response to the trade deficit, such as the House-passed domestic content bill. Such initiatives would hurt our economy, destroying more jobs than they create, providing benefits to a few at the expense of the majority and stifling the innovation necessary for increased productivity. Such initiatives would clearly hurt American trade. By raising tariff and other trade barriers we would greatly aggravate the international debt problem thus raising the risk of a severe international financial crisis and further losses in U.S. exports in LDC markets. We would, as well, stifle recovery abroad, precluding growth in U.S. exports to other industrialized nations."

Mr. President, I call on the auto industy to reject domestic content legislation, and further, to ask now that the existing quotas on Japanese exports be terminated. The fourth year of the quotas has just begun. To wait until next March is to have waited too long. The auto industry's new prosperity is a false prosperity so long as import quotas are in place and the threat of domestic content hangs over the market. The industry should use its new profits to reduce the price of its cars, secure its expanding share of the American market, and let the American consumer share in the good times.

The CHAIRMAN. Next we will take Senator Carl Levin, the junior Senator from Michigan.

Carl, it is good to have you with us this morning.

## STATEMENT OF HON. CARL LEVIN, U.S. SENATOR FROM MICHIGAN

Senator LEVIN. Thank you, Mr. Chairman, members of the committee. I appreciate the opportunity to be with you this morning.

Domestic content legislation makes sense for a number of reasons. We need it to ensure that the auto industry and the manufacturing base which it supports can remain viable not only for the workers dependent on the industry for their livelihood, but for our Nation's industrial and military strength.

We need it to make sure that foreign auto makers, particularly the Japanese, return to this country through investment and production facilities and jobs some of the rewards they reap here.

And we need domestic content legislation because it recognizes the reality that exists in our international trading relations. The reality is that the Japanese have raised barriers and restrictions and imposed quotas and tariffs on our products, while they want free access for their products to our markets.

As a Nation, we have expressed support for the theory of free trade and open markets for goods and services. We realize that in theory there are a lot of benefits to flow to consumers from free trade.

But, Mr. Chairman, and members of the committee, free trade is a myth. We exist in a world where over 30 countries restrict auto imports through content requirements, tariffs, and nontariff barriers, and here is a list of some of them. Those countries include France, Germany, Australia, the United Kingdom, Italy, Belgium, Spain, and, yes, Japan.

We have an administration that preaches free trade in autos but has no difficulty whatsoever in setting quotas, actual quotas, on textile imports from China. How do we explain that? How does this committee explain that? How do we explain legislation which authorizes quotas on textiles—legislation which I believe this committee has authored and supports?

We sit down with the Chinese and tell them exactly how many textiles we will allow in this country. Quotas, not voluntary restraints. We do not make the Chinese read tea leaves when it comes to textiles. But when it comes to autos and the Japanese, they must guess what our intentions are. How do we explain that double standard, where we have legislation relating to quotas on textiles and the administration sits around a table and tells the Chinese that they are allowed to import only a fixed quantity of textiles a year and no more?

But when it comes to automobiles, all of a sudden we are plowing new ground. Well, that would be a violation of the theory of free trade. And look at the inconsistency in our trade with Japan. Talk about inconsistencies. We have the Japanese that want unrestricted access to U.S. markets for their products, but they maintain quotas, tariffs, and nontariff barriers on wood, beef, tobacco, citrus, and other agricultural products.

They have imposed restrictions and conditions, and are contemplating new ones, on the sale of high technology imports from the United States in the areas of value added networks called VAN's, software, and satellites. And those are just a few of the areas where the Japanese are restricting our goods and where we have a comparative advantage over them.

The Japanese do not kid around. I would like to submit for the record, Mr. Chairman and members of the committee, the agreement which establishes quotas on our beef and orange juice—fixed quotas. They say to the United States this is the total amount of orange juice to be imported this year into the Japanese market—5,000 metric tons, going up to 6,500 metric tons. This is the total amount of beef you can import this year. They do not kid around. They set quotas on our products.

We just recently obtained a slight increase in some of those quotas, by the way. The Japanese will let us have 6,900 tons more of beef each year, and our trade representative says that is a great victory. Thank you, Japan. Thank you very much. Sixty-nine hundred tons more a year. That is about 1 day's worth of cars. And we declare victory?

The Japanese do it to us. They do not kid around. They set it in black and white. Here is what you will be allowed.

The Japanese Government even in the area of imported autos require individual inspection and certification of safety and emission systems on each auto. We do not. That is what is called a nontariff barrier. They impose a commodity tax on all autos based on size—18.5 percent tax on autos with smaller engine sizes, and a 23-percent tax on autos with larger engine sizes. And by the way, it is no coincidence that all of the approximately 2,000 U.S. autos sold in Japan in 1983 were taxed at the higher rate.

Now, the domestic content legislation before this committee recognizes this reality and responds to it in a modest way. It would not impose quotas the way the Japanese do on our goods, nor does it involve tariffs. Rather, it requires that auto makers that want to sell in the U.S. market undertake production here as well. That would add jobs to the United States and would assure a competitive market for consumers since the legislation places no limits on the numbers of autos produced and sold here.

Mr. Chairman, one last comment.

What we are doing here is continuing a tradition of careful moderation in terms of the products that this country both buys from abroad and the country buys in terms of its own procurement. This is not new ground the way some would suggest. Domestic content for autos is not a radical new departure. As I have already mentioned, we place quotas on textiles from abroad.

And let me also mention and put in the record the Buy American provisions in the DOD authorization and appropriation acts. Every year we approve these provisions. Senators of this committee vote for these provisions every year. The Defense Appropriation Act restricts American dollars to American food products. We will not buy food stuffs from abroad, including Japanese food. Our farmers do not know that.

American dollars in terms of Government procurement cannot buy foreign clothing. We protect the clothing industry in this country. American cotton must be bought. No defense dollars can be used to buy foreign cotton. We restrict purchases of yarn and synthetic fabrics and, by the way, ships and parts of ships. The major components of ships must be bought in America. Every one of us votes for this each year in the Senate.

Let us not act as though we are being confronted for the first time in history with some new provision relative to fairness in the area of trade. How many of the shipyards in Washington or down in Virginia or in Maine would be here today if this committee decided it would repeal the Buy America provisions of our defense authorization bill? Would we still hear from all of those Senators about, hey, let us have pure free trade, when we know what our trading partners do to us?

And if you do not believe they do it to us, take a look at our trade deficit. Projected at $120 billion this year, $30 billion of that amount with Japan alone, and most of that because of Japanese auto imports. We are not plowing new ground. We are trying to have a semblance of fairness and a two-way street in the area of trade.

Mr. Chairman, At this point I ask that the balance of my statement be inserted in the record. I would also ask that the Buy America provisions of the Defense Authorization and Appropriation Acts, that are approved each year be inserted in the record, and that the Japanese agreement with us setting quotas on our beef, citrus, and other products be inserted in the record.

In addition, I would also ask that the textile agreement between ourselves and the Chinese in which we set quotas on Chinese textiles be inserted in the record in full at this point.[1]

The **Chairman**. Without objection.

Senator **Levin**. I thank you.

The **Chairman**. Senator Danforth.

Senator **Danforth**. Senator Levin, you have shown us a very interesting chart which tells us what Germany, Great Britain, France, Italy, and Spain are doing with respect to import limitations. Is it your testimony that those particular countries should be the models for U.S. economic strategy?

[The table follows:]

Import controls on Japanese vehicles

| Country: | *Import limit* |
|---|---|
| Germany (percent) | 10–12 |
| Great Britain (percent) | 10–12 |
| France (percent) | 3 |
| Italy (vehicles) | 2,200 |
| Spain | (1) |
| United States (percent) | 21 |

(1) No imports permitted.

Senator **Levin**. No. It is my testimony that the reality of world trade is what you see here. The Japanese set barriers, these countries set barriers, and until you have achieved by negotiation a different regime where all products are freely allowed in other countries—where these countries accept Japanese and our cars freely—that we are being made fools of. We are being walked over.

Senator **Danforth**. I think the U.S. economy is doing much better than the economies listed on that chart.

Senator **Levin**. Some of them.

Senator **Danforth**. I wonder why we should go the route, for example, of Italy or Great Britain. That seems to me to be the backward model rather than the forward model.

Senator **Levin**. I am suggesting that this economy is a lot healthier than those countries for many reasons. The fact that they put restrictions on imports does not mean that their economy is better than ours in lots of other ways.

Senator **Danforth**. I believe I recall that both you and Senator Riegle are cosponsors of the reciprocity bill. The theory of that bill is to attempt to open up markets in other countries that are closed and to reduce barriers that exist abroad to U.S. exports. Do you continue to feel that that should be the strategy of the United States?

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[1] The attachments referred to were not reproducible and are in the committee files.

Senator **Levin**. That should be one of our strategies. We should try to force open those markets by reciprocating and retaliating against those countries that discriminate against our goods. I feel strongly about that. I think the Japanese, in particular, make fools of us by restricting their markets while we open our markets to their goods. We should force their markets open. The reciprocity bill is only one tool. While I happen to consider it a plus, it is not nearly enough because it is discretionary on the part of the President as to whether to utilize it. It is not a mandatory requirement on the executive.

Senator **Danforth**. Has the U.S. auto industry been making an effort to sell automobiles in Japan? Do you think that Japan is a likely market—if they had no barriers whatever, would that be a likely market for U.S. firms?

Senator **Levin**. It would be a more likely market or else they would not put barriers against our goods. They do not put barriers there just for the heck of it. They put barriers there to——

Senator **Danforth**. The Japanese automobiles have steering wheels on the right side of the car. How many cars made in the United States have steering wheels on the right side?

Senator **Levin**. We make steering wheels on the left to sell to the Japanese market. We sell 2,000 there a year. We would sell more cars there if they reduce the barriers. But why do they have the barriers, if I can reverse the question to my friend from Missouri. Why do they have barriers except to keep out our product?

Senator **Danforth**. I am the examiner in this procedure.

Senator **Levin**. It is a rhetorical question. I was not really seeking an answer. They have barriers to keep out our goods. We sell 2,000 cars there a year, and I am not one to suggest that——

Senator **Danforth**. It seems to me that there are two strategies we can follow. One is to try to reduce barriers in other countries and create broader markets abroad. The other is to simply emulate what is going on in other countries, including Spain and Italy and so on, and erect barriers ourselves, and domestic content is kind of the bellweather of the latter strategy.

Senator **Levin**. I think we can follow both simultaneously—and we should. As a matter of fact, they are consistent. The only way we are going to reduce other barriers is if we let other countries know they cannot walk all over us. Right now Japan is walking all over us in the area of trade. Why do we tolerate quotas on our beef? Why do we tolerate it from Japan for 1 minute? Why do we sit around these tables and in these halls and accept an increase of 6,900?

Senator **Danforth**. I do not think we should. I think we should go to GATT. I think we should use the rules that have been agreed to by international agreement, and go to GATT, and that is what I have recommended to the administration, and that is what I have recommended to USTR, but I think it is a very large jump from saying that we should go to GATT or that we are following the wrong policy with regard to beef exports to saying that we should pass a domestic content bill.

Senator **Levin**. GATT has led to a projected $120 billion trade deficit. We are exporting 2½ million jobs a year. Two and a half million jobs per year are being exported from this country with a $100 billion trade deficit under the present rules of GATT. I want to follow the present rules, too. They are up on that chart.

Senator **Danforth**. You want to follow the Italian-Spanish model.

Senator **Levin**. Every auto producing country in the world restricts Japanese cars, and you are saying it is not in their interest to do so? I think it clearly is in their interest or they would not be doing it.

The **Chairman**. Carl, when I was last in Japan, I posed to the Japanese Manufacturing Association the allegations about their limitations on our cars. They will contend there are no limitations. We can sell as many cars in their economy as we want, and they will cite figures that more Volkswagens and Porsches are sold and other cars, more Saabs are sold than American cars.

Their contention is, we are not really interested in their market, and we do not want to build the kind of car they want for their size people and their size roads, and we can come and sell if we want, without arguing as to whether or not that is true, because having dealt with the Japanese in a whole variety of other areas, I am inclined to think that whether there are tariffs or quotas, there are certainly a variety of bureaucratic restrictions which make it difficult.

But if, if, Carl, we had literally honest free trade in automobiles with Japan, it would not change your view about the domestic content law, would it?

Senator **Levin**. No, because we would have to have free trade in other products with Japan as well, and all auto producing countries would have to abide by the same rules. When these countries put restrictions on Japanese cars—and these are just a few of them—they put pressure on our markets.

So when all auto producing countries abide by the same rules, and when the Japanese open up their markets to our goods, not just our cars, and I happen to agree with you the sale of our cars would not vastly increase in Japan if they dropped their barriers, I happen to agree with that. I think they are foolish for keeping them. But in any event, when they stop and drop their barriers to our products, and I have listed just a few that they have barriers against, and when all auto producing countries abide by the same rule, it seems to me we are in a different ball game. Until then, we should deal with other countries no better than they deal with us. We should treat them no better in business than they treat us.

The **Chairman**. Carl, I have a question. As you look at the percentage of imported auto sales in this country absent Japan, they have stayed relatively constant over the last 15 years, at about 5 or 6 percent, why have the Japanese done so well in penetrating this market and the other auto manufacturers barely seem to hold their own, which is a relatively slight percentage of our market?

Senator **Levin**. I would rather allow others to try to assess that. I think it has something to do with price and perhaps size at the right moment in history when there was an oil crunch. They had the right sized cars at that moment, and did very well at that moment.

I think that is the answer, but I would rather have other analysts attempt a more definitive answer.

The CHAIRMAN. Don?

Senator RIEGLE. Thank you, Mr. Chairman.

I want to thank my colleague for what I think has been an excellent presentation, and one that helps illustrate this problem. As a matter of fact, for Senator Danforth's consideration, if Japan were listed on that chart and you have stated it should be included on that list along with all of the other nations in the world that restrict our imports—it would show that their import limit is 1 percent.

Only 1 percent of the cars sold in Japan today come from all other nations combined, so they are very, very effective in terms of keeping their home market to themselves. Not just in cars. This is just one very vivid example. But in many other areas as well. And I think it is important to put in the record again a very important point you made: when other nations clamp these import limitations on Japanese cars, it requires Japan then to take all of that surplus production and funnel it into the United States.

We have done an analysis to try to determine what would likely happen next year if the voluntary import limitations come off as Ambassador Brock has suggested. The best analysis indicates that Japan has the capacity today with existing facilities to produce an additional 4 million cars which presumably would come here because they cannot go to any of the other nations because the other nations have restricted Japan.

So if the thinking of the Senators on this panel on the other side of the issue were to prevail and the import limitations were to come off, there is every reason to think that the penetration of the Japanese could go from 21 percent of our market to 40 percent or higher almost overnight if they chose to do so. They have the capacity to do so, and they have no other markets open to them to unload that excess production, and that is a critical factor here.

I just want to make one other observation. I noticed that in the question you posed to Senator Danforth, who is our friend and colleague from Missouri and a very worthy adversary on this issue, that he was much better at the question than the answers.

I think the question you posed to him as to why the Japanese maintained these trade barriers that he was unwilling or unable to answer is an answer that he ought to provide at some point, because that really starts to get down to the nub of the issue here, and that is that there is a double standard being practiced here, and the clear evidence is the bottom line of the trade deficit this year.

I have heard no one on that side of the aisle this morning give any tangible, substantive argument to explain away the magnitude of the trade deficit or how this will be solved any time soon. In fact, it is getting worse, not better. It is growing, and I think until they have an answer to that, it is not enough for them to object to this idea or someone else's idea. I think they have an obligation to come forward with a workable idea, and with the trade deficit rising, there is no evidence they have that to offer, and I think that is unfortunate.

The CHAIRMAN. Russell.

Senator LONG. I already suggested, and I am sure in complete good faith that the answer to our problem was to go to GATT. Now, my impression about going to GATT is, and I just say this from many years' experience, I have served a long time up here now, that any time someone has a problem and is in danger of being run out of business by unfair competition from abroad, if he comes up here to Washington looking for help and they do not want to do it, they can point him and send him over there to GATT. If they do want to do something about it, they take care of it in Washington.

I would advise you not to waste your time at GATT, because you will wind up if you still have any life left in you back in Washington for the answer here. That is usually how it tends to work out. I believe you know, do you not, that even if that GATT crowd agrees with you, by the time you have been through all the processes and got someone to listen to you, and if they decide something in your favor, they do not make the guy do anything. They just tell him they think you are right and he ought to cooperate. In that respect, we ourselves are similar. If we have something the GATT does not agree with, we are still holding onto it until we find something to take its place.

I have not decided how to vote on this, but I must agree with you that you are not going to get any reciprocity out of Japan by talking to them about it. They sent their prime minister over here. He has talked to the President and made some concessions which in his point of view had to be very courageous because when he got back home they would not even honor him. He was so imperiled in his political position he had to back away from the concessions he had made to the President.

My impression about that was that that was concessions worth about $250 million from our point of view looking at the size of this market. That is hardly enough to fill an eyedropper if you look at what the problem was. So that if you are going to do something, it seems to me that at some point you are going to have to restrict Japanese imports and then deal from a position of strength. Tell the people, we are willing to let more of your commodities come into our market provided you let more go into your market.

I think this whole thing was sold on the idea that it was going to be reciprocal and fair, too.

This trade program was sold to the American people not on free trade, but on the idea that it would be reciprocal and fair. And in the eyes of the American people, it is neither, and I don't think it is either one, and this is a good illustration.

This Government declines to do the types of things it would take to make the Japanese do business with us. As long as you let them have the kind of access they have to our market, where they are making a 2 to 1 profit on us, selling $2 here for every dollar they take home with them, and you just talk about it, you are not going to get anywhere with it.

So I am convinced that you are going to have to do something here in Washington, not over there.

Thank you.

The **Chairman**. Thank you very much.

Senator **Levin**. Mr. Chairman and all of the members of the committee, thank you.

[The statement follows:]

### STATEMENT OF HON. CARL LEVIN, U.S. SENATOR FROM MICHIGAN

Mr. Chairman, thank you for this opportunity to testify in support of S. 707 and H.R. 1234, which would establish domestic content requirements for automobiles sold in the U.S. I want to commend you for holding this series of hearings. It is my hope these hearings will provide the Commerce Committee and the Senate an adequate basis for consideration of this legislation this year.

We need domestic content legislation because it makes sense—and for a number of reasons. We need it to ensure that the auto industry and the manufacturing base which it supports can remain viable, not only for the workers dependent on the industry for their livelihood but for our Nation's industrial and military strength. We need it to make sure that foreign auto makers, particularly the Japanese, return to this country, through investments in production facilities and jobs, some of the rewards which they reap.

And we need domestic content legislation because it recognizes the reality that exists in our international trading relations. The reality is that the Japanese raise barriers and restrictions, and impose quotas and tariffs on our products while they want free access for their products to our markets.

As a nation, we have expressed support for the theory of free trade and open markets for goods and services. We realize that there are considerable benefits that flow from free trade. Those individuals, firms, and countries having special talents and resources—comparative advantages—will provide those goods which they produce most efficiently. This in turn allows consumers in all nations to enjoy a greater quantity and quality of goods and services, through trade, which they are unable to produce as efficiently for themselves.

But free trade is a myth. We exist in a world where over 30 countries restrict auto imports through content requirements, tariffs and non-tariff barriers, including France, Germany, Australia, United Kingdom, Italy, Belgium, Spain, and yes Japan. We have an Administration that preaches free trade but has no difficulty setting actual quotas on textile imports from China. And when the limits on textile from China and other countries are not enough, it changes existing procedures to further restrict increases in textile imports. However, the Administration won't negotiate limits on Japanese autos. What inconsistency! And talk about inconsistency. We have Japan that wants unrestricted access to U.S. markets for its products but maintains quotas, tariffs and barriers on wood products and beef, tobacco, citrus and other agricultural products; it has imposed restrictions and conditions and is contemplating new ones on the sale of high technology imports from the U.S. in the areas of Value Added Networks (VAN's), software, and satellites. These are just a few areas in which we have a comparative advantage over the Japanese where we are not now and may not be able in the future to enjoy that advantage—unless we are willing to demonstrate our resolve.

And it is apparent we have not. When this Committee last held hearings on domestic content in December 1982, the U.S. Trade Representative had recently published a substantial report on Japanese trade restrictions, barriers, and tariffs. Some of the problems identified in that report have been the subject of recent negotiations. The result has been some increase in beef and citrus quotas—and our Trade Representative then claims a great victory. Severe quotas still exist against American products—but we claim victory anyway. "Thank you, Japan," we say for letting in 6,900 tons more beef a year. That's all of one day's imports of Japanese cars to the U.S. Why do we tolerate Japanese quotas and tariffs against our products? Because we are fools, that's why. We chase fantasies while the Japanese walk all over us in trade and discriminate against our goods.

In the area of imported autos, the Japanese government still requires individual inspection and certification of safety and emission systems on each auto. Moreover, the Japanese impose a "commodity tax" on all autos based upon size—18.5 percent on autos with engine sizes of 2,000 cc or less and 23 percent over 2,000 cc. It is no coincidence that all of the approximately 2,000 U.S. autos sold in Japan during 1983 were taxed at the higher rate.

But let's not talk of free trade—it does not exist in the context of our trading relations. It is an ideal only, and we maintain the illusion only at our peril.

The domestic content legislation before this Committee recognizes this reality and responds to it in a modest way. It would not impose quotas, as the Japanese do on our goods. Nor does it involve tariffs. Rather, it requires that auto makers that want to sell in the U.S. market undertake production here as well. And this would ensure a competitive market for consumers since the legislation places no limit on the number of autos produced and sold here.

Domestic content would ensure that the auto industry and the manufacturing base it supports remains viable. The U.S. auto industry is central to our nation's economic security and military strength. One-in-ten non-farm jobs are auto related. It supports numerous other industries, consuming over 20 percent of the steel used in this country; 50 percent of the malleable iron; 34 percent of the zinc; 12 percent of the primary aluminum; 13 percent of the copper; and 60 percent of the synthetic rubber; and it is a major textile consumer. In the absence of import restraint or domestic content, further decline in this manufacturing base can be expected as foreign imports take an increasingly larger share of the market. This would in turn reduce our economic security as well as military strength.

Domestic content would create or preserve over 1 million jobs at the auto companies and in their suppliers, as both foreign and domestic auto makers invested to meet the requirements of the legislation. Without this legislation, the resulting increase in unemployment would be borne by the taxpayers through increased unemployment compensation, lost tax revenues to the Treasury, and the cost of retraining and other relief. Consumers are taxpayers—they will pay for further decline in the auto industry.

Moreover, domestic content will show Japan that we are serious about opening their markets to the sale of U.S. products. The benefits of our trade with Japan flow one way—toward them, as evidenced by our trade deficit of approximately $21 billion. About ⅔'s of that amount resulted from Japanese auto imports. Domestic content would show that we will not let the Japanese continue to ravage our domestic auto market while at the same time restricting through various means their markets from our goods.

One final point I would like to address is that of retaliation. As of now the Japanese have yet to retaliate against other nations which have imposed restrictions and content requirements on Japanese auto imports. That, by the way, is what every auto producing country in the world does—all 31 of them. Moreover, the value of continued access to the U.S. auto market—the largest and most lucrative in the world—would be an important factor militating against retaliation. Finally, retaliation from our other trading partners would be unlikely given the greater degree of restrictions they impose on imported autos and other products.

Again, I want to thank you for the opportunity to testify. It is my hope these hearings will be the beginning of the end of the debate on domestic content and a movement toward enactment of this important legislation.

The CHAIRMAN. Next we will hear from Congressman Ottinger. For the benefit of the audience, it is my intention to run the hearing straight through. I know there is a joint session for President de la Madrid of Mexico, but that was scheduled recently and these hearings have been scheduled a long time. So we will go right through that, right through lunch, and continue on until we finish.

## STATEMENT OF HON. RICHARD L. OTTINGER, U.S. REPRESENTATIVE FROM NEW YORK

Mr. OTTINGER. Mr. Chairman, I want to thank you for the opportunity of testifying today.

I am the proud author of H.R. 1234 and its companion S. 707, the domestic content legislation which has twice been passed in the House of Representatives. Let me submit my statement and try to address some of the problems.

The CHAIRMAN. Your statement will appear in the record in its entirety.

Senator RIEGLE. Could I ask, Congressman Ottinger, for you to pull the microphone closer to yourself. I want to make sure you are heard throughout the room.

Mr. OTTINGER. I think the central question here is the U.S. interest, and the main concern that we have to have is that the United States is rapidly losing its industrial base. Take a look at the inventions that the United States pioneered: electronics, aircraft, and computers. And you see it all disappearing overseas.

In fact, we are rapidly declining to the status of a Third World nation. Our prime imports last year were of manufactured goods. Our prime exports were of raw materials. The question we have to face is whether we can continue to be a strong economy, to provide jobs for our people, if we allow this trend to continue, and whether we can continue to play on a world scene which has become far more competitive than anything we have seen.

I think you have to put this in historic perspective, because after World War II we were predominant in the economy of the world. The Japanese and the Europeans were destroyed by that war, and the United States, in one of its most enlightened actions, helped to rebuild the European nations and Japan.

Among the things that we did to assist them, besides the Marshall Plan and direct help to them to rebuild their industry, was to lower our trade barriers and encourage them to sell in the U.S. markets.

The balance of power has now shifted. Europe is now as strong as we are and Japan is as strong, if not stronger. The trade provisions have not been changed at all to reflect that shift in power.

So we have seen the Europeans and the Japanese put up very strong barriers to sales within their country, and the United States, as a champion of world trade, in which I strongly believe, has not done anything to see to it that that is done on a reciprocal basis. We find our goods systematically excluded from those markets.

What the domestic content legislation seeks to do, and the most important single area of maintaining our industrial base, is to maintain an automobile industry within the United States. We do so, not like Britain or Japan or the other European countries do, by providing quotas, but by saying we encourage competition in the United States. We invite the Japanese to come here and build here, but if they are going to take advantage of our largest market, they have to produce here.

I want to emphasize that the fears that many expressed here in their opening statements about increased prices and damage to consumers are totally unfounded. All of the studies that the CBO and others have made on this assume total retaliation, assume that the Japanese are going to withdraw from our marketplace and retaliate in other products.

I think that that is completely illusory. At the present time, we account for about 50 percent of the profits to the Japanese automobile industry. The idea that they would withdraw from our marketplace is illusory. We are far too important to them.

What they will do, the trend they have indeed been following—I will recite some of that in a moment—they will start to produce in the United States. And rather than seeing less competition in our markets, we will see more as the Japanese come here and produce here

And indeed, that is why the Consumer Federation of America, the largest consumer organization in this country, supports this legislation. They do not believe, as has been asserted, that what we will be doing is gouging the consumers of the United States in order to protect auto workers. They believe that what will happen will be that the Japanese will come here and produce here, that it will produce additional competition from within the United States, and that that will drive prices down.

With respect to retaliation, you have already heard probably as much as you need to hear about the restrictive practices of the Japanese. It is like Senator Gorton mentioned, Boeing. I think someone else mentioned Boeing. The fact is, when Boeing wants to sell aircraft in Japan, Japan insists that a percentage of those aircraft be made in Japan.

They are looking after their interests. They know what an important part of being an industrial society producing aircraft is, and they insist—and that is really the Japanese Government, because the Japanese Government owns Japan Airlines and finances the rest of the aircraft industry in Japan—they create the capability of being able to produce the aircraft in Japan, so they can go and compete with us and borrow in the world marketplace for airplanes. This is the real world in which we live.

Now, it is not just these, what you describe as greedy auto workers, that we are protecting by any means by this legislation. Automobiles are the most important factor in steel, glass, rubber, textiles.

The automobile industry is as central as any product we have to maintaining an industrial base in this country, and the reason that the rest of these countries, the European countries, maintain quotas and 31 countries maintain domestic content legislation is because they recognize that the automobile industry is essential to an industrial base in their country, essential to their production of steel and glass and maintain their workers at work.

And I think we simply cannot ignore that. Yes, surely if we could have free trade throughout the world that would be the objective we desire. Reciprocity would be a good move in that direction. But the fact of the matter is, we simply cannot afford to lose our industrial base in the United States, from a national defense standpoint or from a job standpoint.

There are a bunch of Democrats, many of whom are my friends, who for a while thought we could maintain our society on the basis of high technology. They called themselves the Atari Democrats. You do not hear a Democrat today describing himself as an Atari Democrat. The reason is simple: Atari has moved overseas.

A good deal of talk has been directed today toward the high profits and the high bonuses given to the executives of the American automobile industry and to an asserted recovery of the American automobile industry. But the trends and the facts simply will not support that.

And I think one of the major factors in the high profits and the high executive bonuses you see today are the quotas we maintain. It is very curious, indeed. Ambassador Brock said he was going to punish the automobile industry by withdrawing the voluntary restraint agreement after it expires this year.

What was the Japanese response? The Japanese came forward and said: No, we want this agreement extended. The fact of the matter is that it has been a bonanza to the profitability of the American automobile industry and the Japanese.

They have hidden behind these quotas. The Japanese have shifted to the United States their more expensive and larger models, and they are making increased profits on that basis. And the American companies have profited from the restriction on the Japanese imports in order to increase their own sales.

I think that the voluntary quota agreement, while it was needed when it was put into place, because at that time the Japanese did take advantage of the higher oil prices, produced small cars and made a tremendous penetration in the market. The quotas were designed to give the U.S. manufacturers breathing room to develop and manufacture a competitive small car. At this juncture, I think the domestic content would be far, far a preferable road to go.

The quotas, incidentally, were set at 1.68 million cars. The Japanese import penetration would be maintained at the 1979 level of 16.5 percent of the market. But by 1983, due to a combination of the slump in automobile sales and an increase in the sales of vehicles which did not fall under the quotas, imports increased to 22 percent of the total market. In 1983 a Commerce Department report predicted that import penetration could well increase to 35 or 40 percent if the quotas were lifted.

The U.S. manufacturers have not used this breathing space to build a small competitive car. Instead, they are increasing their production and investment overseas. In fact, the big three have scheduled massive increases. General Motors has already announced plans for U.S. dealerships to sell annual imports of 90,000 Suzukis and 200,000 Isuzus from Japan, 60,000 Daewoo cars from Korea and 200,000 U.S.-assembled cars with 50 percent imported value from Toyota. That's 550,000 new subcompact introductions. That far exceeds GM's annual delivery of Chevettes and T-1000's.

The Ford Co., plans imports in the coming year of at least 160,000 small cars from Mexico and Europe, and GM plans to import from Mexico 60,000 vehicles. Chrysler, which has been trying to hold the line on U.S. manufacture, says that if this happens they must go abroad as well.

And what you will see is a picture of disappearing U.S. manufacturers and an increasing number of cars being sold under U.S. labels which are in fact made overseas. The domestic content legislation would not have these adverse economic effects.

The purpose of this bill is not to protect the automobile companies from competition, but on the contrary to promote competition by requiring foreign manufacturers to produce here. The domestic content legislation simply requires that each company invest in the United States in a direct relation to its sales here.

Some Japanese companies have already begun this process, as I mentioned before. This winter Honda announced it will invest $240 million in its Marysville, OH, plant to increase production from 55,000 units to 155,000 units by this spring. The company hopes the plant will reach a total production of 300,000 cars per year by 1988. Nissan, which runs a truck plant in Smyrna, TN, is considering expanding its facility to produce automobiles as well.

The willingness of the Japanese companies to invest in the United States is a welcomed beginning. The domestic content legislation would merely further this practice by assuring that companies maintain their production here in accordance with their sales.

With respect to the automobile recovery—and this is the last point I will cover—even though this year has been a boom for the auto industry—and I am as concerned as anyone about the huge executive bonuses that are being paid—you have got to look at the realities.

Automobile unemployment remains very high. Between 1978 and 1983, 335,000 jobs were lost as a result of the depressed auto industry. Now, many of these jobs have remained—close to 190,000 workers have remained unemployed, while auto profits have boomed.

U.S. production has remained much lower than the peak year of 1978. Production between 1982 and 1983 increased by 35 percent. Yet it is still 24 percent lower than in 1978.

The out-sourcing of parts by American manufacturers is just ballooning. The accounting firm of Arthur Andersen predicted that this practice would grow to as much as 20 percent of the total U.S. production by 1990.

The overall importing of car and truck parts has increased 150 percent, from 2 percent in 1972 to over 5 percent today. In 1982 alone, 760,000 engines and over 1 million transmissions were imported into the United States and Canada.

What the domestic content legislation would do is reverse these trends. It would not prohibit the Japanese or European manufacturers from coming into the United States. It would encourage them to come here and build here, and it would result in a competitive and productive industry which would provide needed jobs for our workers and assure steady demand for those industries that rely on U.S. auto production, increase revenues to the U.S. Treasury and assure the U.S. consumer a larger choice of cars at competitive prices.

Most important of all, it would keep the most important part of our industrial base thriving within the United States.

I thank you.

The CHAIRMAN. Thank you, Dick.

Jack?

Senator DANFORTH. No questions.

The CHAIRMAN. Don?

Senator RIEGLE. I just want to commend the Congressman for his leadership. I would engage him in questions, but we have other witnesses we must get to. I appreciate the statement he has made.

The CHAIRMAN. Russell?

[No response.]

The CHAIRMAN. Wendell?

Senator FORD. Mr. Chairman, let me ask just one question. I am sorry I was not here earlier and perhaps this has already been covered. They are trying to do something to my synfuels. I know you would like to do that, Congressman, but I am going to try to prevent it today if I can.

Did I understand you to say that when the Japanese purchase aircraft from this country they had a requirement that certain parts of that aircraft be manufactured in Japan?

Mr. **Ottinger**. The airframes. We give them the technology and we assist them in producing the entire airframe, the engines and parts in Japan.

Senator **Ford**. So therefore, even though we make a sale, we derive very little from that sale, other than the technology and supervision.

Mr. **Ottinger**. We derive the immediate benefits from the particular sale. But they have insisted as a condition of buying our planes that they develop the capability within their own society to be able to produce those planes in competition with us.

Senator **Ford**. Did I understand you to say that 50 percent of the auto industry in Japan, 50 percent of their profits for the industry in Japan, comes from this country.

Mr. **Ottinger**. That is correct.

Senator **Ford**. Did I also understand you to say that in one period there were 335,000 auto workers without jobs; today still 190,000 are still unemployed?

Mr. **Ottinger**. That is correct.

Senator **Ford**. What kind of increase has this legislation—well, let me say, that means that 50 percent of the profit would still make this the most lucrative sales area to Japan in the world.

Mr. **Ottinger**. Absolutely. The idea that Japan will withdraw from the U.S. market is a shibboleth. It will not happen.

Senator **Ford**. There are still 190,000 auto workers unemployed?

Mr. **Ottinger**. That is correct. There are still thousands of glass workers and textile workers unemployed.

Senator **Ford**. How much of an improvement since this legislation began to get some momentum? Have the Japanese applied themselves to expanding plants or moving here, et cetera?

Mr. **Ottinger**. I went through that in my testimony, but Honda, Nissan, and several other Japanese companies have established manufacturing facilities within the United States and they are expanding those facilities, and in fact would probably qualify under the domestic content legislation because of the actions they have taken.

Senator **Ford**. I also want you to reiterate one point, and this will be my last question. Of the major auto manufacturers in this country, how much of the Japanese motors, transmissions, that area, how much are they purchasing from Japan to put in so-called American made automobiles?

Mr. **Ottinger**. It is a fast-increasing percentage. Owen Bieber will be testifying before you shortly and I think he will probably have those figures precisely for you. I don't happen to have them with me at the present time.

We were over in Japan with John Dingell last April, and while our Ambasador Mike Mansfield said that he does not support domestic content legislation, he said it is the single item of leverage that we have in trying to get the Japanese to make more concessions.

When I went over there I held a press conference. There must have been 100 members of the Japanese press there. They are tremendously concerned. I told them that I thought it would be very difficult to pass domestic content legislation over the veto of the President, but if they continue on their present trends, if they continue to support the high yen, if they continue practices which in effect exclude us from their markets, one day the domestic content legislation would be able to pass.

Clearly, it has provided tremendous leverage for us in terms of our dealings with the Japanese in a whole range of exclusionary practices, which they probably practice more vigorously, more protectionistically, than any other country in the world.

That is why they are not going to retaliate against our agriculture, our pins, or what other goods they have. They are probably the most vulnerable country in the world with respect to any kind of GATT proceedings that might be held with respect to restrictive trade practices.

Senator FORD. Congressman, I have what I feel like are respected individuals in the foreign auto sales business, and I have some problem taking an opposite view from them at times. And they are nearing the 200,000 employee mark. And as the expansion of the various plants, something like a billion dollars apparently is on the board by the Japanese companies in this country, will that not ease the pain of the domestic content legislation if that trend continues?

Mr. OTTINGER. There is no question about it. Japan has traditionally not retaliated. When the Canadians were having difficulty reaching an agreement with Japan on automobiles, Canada decided, we will just apply to the Japanese automobiles the same restrictions they apply, and they started inspecting Japanese cars one at a time.

The Japanese cars started to pile up in the yards and the boats backed up in the harbor, and it was not a matter of more than a few weeks before the Japanese did not retaliate against Canada, but reached an agreement.

I think what you are seeing now is, because of the domestic content legislation, because of the concern that has been expressed by many in both Houses, and the fact that the House has passed this bill twice, the Japanese are already starting to accommodate. They are building these plants in the United States and increasing their production.

The result of this bill would be to see that become a reality, and we would have a much healthier auto industry in the United States.

Senator FORD. Thank you, Mr. Chairman.

Senator LONG. Mr. Chairman, I would like to ask a question of the witness.

The CHAIRMAN. Yes, but I would like to correct a statement, if I can, in terms of the Boeing planes being sold. Boeing is due to testify in Portland. To begin with, they are opposed to the domestic content legislation. But I asked them this question and asked them to be prepared to answer it:

Is it not true that the Japanese Government has forced Boeing to purchase parts from Japanese suppliers as a condition of Boeing's sale of aircraft to Japan, F-15's to the Government? Is this not local content?

Their answer is: No, Japan does not have content requirements for civilian aircraft purchased by customers. Boeing saw fit for commercial reasons to purchase a small volume of parts from Japan. Apart from equipment normally purchased for Boeing aircraft, only 4 percent of the value of Boeing aircraft that have been or will be delivered to Japan from 1979 through 1985 is represented by foreign-source airframe components.

According to Boeing Controller Art Lowell, at today's prices each billion dollars in Boeing sales means approximately 10,000 Boeing jobs a year and another 10,000 for various suppliers.

The F-15 issue concerns national defense. The number of F-15's procured by the Ministry of Defense is 14, and the basis of their local sourcing decision for the F-15 is defense policy, with general consideration for organizing the foundation for national defense.

So I do not want the record to be left with the assumption that Boeing has to purchase a tremendous amount of airframes from the Japanese.

Mr. **Ottinger**. Let me supply for the record—again I do not have it right here with me at my fingertips, but I have it in the office—the actual figures with respect to what are so-called contract requirements that are made with respect to domestic content by the Japanese airframe purchasers.

There were requirements made, and we were told, our companies were told, that if they want to sell their aircraft in Japan they would have to allow the Japanese to produce a certain percentage of those aircraft in Japan. I have those figures. Maybe again Mr. Bieber can supply additional information, but I will be glad to supply them.

[The following information was subsequently received for the record:]

## JAPAN IS PARTICIPATING IN PRODUCTION OF ADVANCED MILITARY AND CIVIL AIRCRAFT TODAY

Japan is currently involved in coproducing modern military and civil aircraft using some state-of-the-art technologies. However, Japan's aircraft production has been and remains today, principally for the military. According to MITI's Second Interim Report on Japan's aircraft industry policy, military sales made up 86 percent of Japan's total aircraft industry sales in 1979. In 1981, production of several older military aircraft was winding down, which the F-15 and P-3C, and some new civil programs became the major activities on the production lines.

The ratio of military to civil aircraft production is expected to change, however, as Japan enters into international joint ventures in civil aricraft and engines. One of the most substantial civil aircraft activities in Japan is the Boeing 767 joint development and coproduction program.[1] Unlike the F-15 and P-3C programs, in which production is duplicated by the licensee, this program provides for sole production workshares of aircraft parts by each of the three partners, the United States, Japan, and Italy. Another major difference is that the B-767 arrangements were worked out among private firms, presumably in arms length transactions and on commercial terms. As such, they do not appear to raise policy issues for the U.S. Government.

Japan's share of the B-767 airframe's value is about 15 percent, and includes production of the fuselage and parts of the wings. The B-767 is a medium-range, fuel-efficient transport which is competing with the European-produced A-310 Airbus. Japan is also involved in a joint venture with Rolls Royce to develop and produce the RJ-500, a commercial jet engine. The RJ-500 will power a 150-seat passenger twin jet.

Two additional aircraft, the MU-300 business jet and BK-117 helicopter, comprise a significant portion of Japan's civilian production. The MU-300 is a product of Japan, which the BK-117 is a joint venture with West Germany. These two aircraft are primarily for export, chiefly to the United States. The MU-300, produced by Mitsubishi, is assembled in Mitsubishi's Texas plant. As of May 1981 there were 115 orders for the business jet—103 were from U.S. customers. The BK-117 helicopter had received 100 orders as of April 1980, half of which were from U.S. customers. By the end of 1980, BK-117 orders increased to 120.

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[1] While Japan and Italy participated in developing and producing the B-767, Boeing considers the foreign partners in the project "risk-sharing subcontractors."

The CHAIRMAN. I will be happy to have it for the record. Boeing will be responding at length on this subject.

I note, I think IBM, which is a large employer in your district, has told me they have about 30 percent of the Japanese market in computers, and without any domestic content requirement.

Mr. OTTINGER. IBM is very much opposed to this legislation, fearing it would be emulated other places throughout the world where it sells computers. But IBM now is beginning to be challenged in the computer chip area by Japanese subsidized manufacturers of more sophisticated computer chips. So they are getting more concerned than they have been.

The CHAIRMAN. Russell.

Senator LONG. I would just like to emphasize the point you made about the threat of Japanese retaliation. If the Japanese should get their nose out of joint, you might say, and decline to buy from the United States and just decide they did not want to trade with us, is there anything they are making there that we cannot make here in the United States?

Mr. OTTINGER. I do not think so, but the Japanese economy would collapse. You try buying a U.S.-manufactured radio today or a television set. I think there is one left. The video games, which are the wave of the future, there is not one made in the United States. The great majority are made in Japan.

The market of the United States for Japan is so overwhelming that if we were to really close down our markets to Japan because they retaliated against us that would not be a ballgame at all. Japan would sink into the ocean. It just would not happen.

Senator LONG. Let us understand. All I want is two-way trade, even trade, reciprocity. I thought that is what the deal was supposed to be in the beginning. And I do not think the American people who have been sold this free trade thing, especially if you understand what that means—that means you are going to give the other guy total access to your market, even though you do not have total access to his; you let him engage in all sorts of restrictive practices to cheat you, even though you are not doing the same thing to him.

If that is what free trade means, count me out. And I think the American people say count us out, if that means that your government is going to discriminate against you while his government subsidizes him. If that is what free trade means, count me out.

But if by insisting that this be a 50-50 proposition, that they buy as much from us as we buy from them, and adopting policies that take us there, if they decide they do not want to do business, the way I read it we would have a net gain of 500,000 good jobs as a result of that.

Mr. OTTINGER. That is correct.

Senator FORD. They would lose 500,000, we would pick up 500,000, which would help us with our unemployment problem very substantially.

Mr. OTTINGER. And the ripple effect is about 5 to 1, because with every automobile job there are about five jobs in steel and rubber and textiles and the other parts that go into making automobiles. So it has a tremendous impact on our economy.

Senator LONG. And if by chance we cannot produce the precision workers to do some of the work the Japanese are doing—I think we can, but if we cannot, those Koreans right next door have proven they can do the same thing.

And we have a balanced trade with Korea. That is even. They are buying the same amount we are buying from them.

Mr. OTTINGER. I have no doubt that we can produce automobiles in the United States, and that is what we are looking for.

Senator LONG. Thank you.

The CHAIRMAN. Dick, thank you.

Mr. OTTINGER. Thank you, Mr. Chairman.

[The statement follows:]

### STATEMENT OF HON. RICHARD L. OTTINGER, U.S. REPRESENTATIVE FROM NEW YORK

Mr. Chairman and members of the committee I would like to thank you for inviting me here today to speak on behalf of H.R. 1234 and S. 707, the domestic content legislation, which I sponsored in the House. The timeliness of your hearings on this legislation is significant in light of U.S. Trade Representative Brock's statement that the administration will not seek from the Japanese Government an extension of the Voluntary Restraint Agreement (VRA) beyond the March 1985 deadline and the very unusual response to Vice President Bush by the Japanese that they would like to see the quotas extended. I would like to concentrate my testimony on the VRA's: What they have and have not accomplished for the U.S. automobile industry, and how the domestic content legislation is a much saner economic solution.

Ambassador Brock felt the administration was "HAD" by the U.S. automobile manufacturers. While last fall they insisted on an extension of the Quotas for an additional year, only six months later they are reaping multi-billion dollar profits, part of which is being awarded to the top executives in multi-million dollar bonuses. Ambassador Brock argues, that because the U.S. companies are able to reap such enormous profits, they must be ready to compete with their Japanese counterparts.

The administration is simply mislead by this fact. These profits are a result of the protection the quotas bring American companies. These companies rely on the extension of the quotas to continue reaping such profits. This is the real problem with quotas. They protect the domestic industry from competition. Morever, they encourage foreign companies to increase their prices and sell only high-priced, high-profit models within their quota allotment. The domestic content legislation, unlike the VRA's encourage competition by requiring foreign companies to invest in production in the United States.

There is no doubt that when the quotas were first instituted in 1980 they were sorely needed. The domestic manufacturers were severely depressed as imports penetrated a greater share of the U.S. market each year. The Japanese Government implemented the quotas to temporarily curb its auto penetration giving the U.S. manufacturers "Breathing Room" to design and manufacture a competitive small car. Unfortunately, the quotas have failed on both objectives:

The VRA's were set at 1.68 million cars so that the Japanese import penetration would be maintained at the 1979 level of 16.5 percent of the U.S. car market. But by 1983, due to a combination of the slump in auto sales and an increase in the sales of vehicles which did not fall under the VRA, imports increased to 22 percent of the total market. A 1983 Commerce Department report predicted that import penetration could well increase to 35 or 40 percent if the quotas were lifted.

The U.S. manufacturers have not built a competitive small car. Instead they are increasing their production and investment in overseas facilities. For instance, G.M. announced its intent to purchase 300,000 small cars from Suzuki and Isuzu for the U.S. market. This move overseas will cost 71,400 American jobs. In January Ford invested $500 million in a plant in Mexico which will produce small cars for the American market. EVen the design of this small car is not American, but will be provided by Ford's Japanese partner, Toyo Kogo.

The inherent problem with the quotas is that they create a barrier behind which the American manufacturers are sheltered from imports. These barriers protect the companies from damaging imports but do not induce them to produce a competitive product. Instead, the U.S. companies are able to raise their prices without significant increasing their productivity.

The result is significantly higher priced cars, both for imports and domestically produced models. A "business week" analysis found that the average price of a domestic car has increased 44.7 percent while a Japanese car now costs 49 percent more than in 1981. To illustrate this point one need only look at the profits of Honda, Nissan and Toyota. While only 30 percent of their total sales are in the United States, 50 percent of their profits are earned in this market alone. The greatest losers under this scenario are the American consumers who must pay almost twice as much for a car since the quotas were established, and the American workers whose jobs are threatened as U.S. manufacturers increase their overseas production.

The domestic content legislation would not have these adverse economic effects. The purpose of this bill is not to protect the auto companies from competition but rather to maintain a healthy auto industry—a vital cornerstone of our economy. The linkage of U.S. auto production to other industries is a very strong one. A large percentage of the total steel, rubber, glass and textile output is used by the auto industry. For every one direct auto job created, another five are supplied throughout the rest of the economy. If the penetration of imports is allowed to continue and the increased outsourcing of U.S. companies ignored, there will be a significant loss of vital jobs in many of our key industries.

The domestic content legislation simply requires that each company invest in the United States in direct relation to its sales here. This concept is neither unattainable, as many opponents have argued, nor is it new. Already 31 countries in the world have domestic content requirements for their automobiles. Many nations use domestic content on a case-by-case basis. For example, when Japan Air Lines purchased a number of Boeing jets, part of the contract agreement with Japan required that a certain percentage of the production had to be conducted in that country.

Some Japanese companies have already begun investing and manufacturing vehicles in the United States and some are talking of increasing their investment. This winter Honda announced it will invest $240 million in its Marysville, Ohio plant to increase production from 55,000 units to 150,000 by this spring. The company hopes the plant will reach total production of 300,000 cars per year by 1988. Nissan, which runs a truck plant in Smyrna, Tennessee, is considering expanding its facility to produce automobiles as well. This willingness by the Japanese companies to invest in the United States is a welcomed beginning. The domestic content legislation would further this practice by assuring that these companies maintain their production here in accordance with their sales.

If the administration continues to point to the auto companies' recent profits as sole proof that they are ready to compete with the Japanese in an open market, it will threaten the livelihood of an industry which is vital to the health of our economy. Even though this year has been a boon for the auto industry it is worth it to look at some facts:

Auto unemployment remains very high. Between 1978 and 1983, 335,000 jobs were lost as a result of the depressed auto industry. Though many of those jobs have been regained, close to 190,000 workers have remain unemployed.

While auto profits have boomed, U.S. production remains much lower than the peak year 1978. Production between 1982 and 1983 increased by 35 percent yet it is still 24 percent lower than 1978.

The outsourcing of parts by American manufacturers is steadily growing. The accounting firm of Arthur Anderson predicted that this practice could grow to as much as 20 percent of total U.S. production by 1990. The overall importing of car and truck parts has increased from two percent in 1972 to over five percent today. In 1982 alone 767,000 engines and over one million transmissions were imported into the U.S. and Canada.

Domestic content would reverse these trends. It would create over one million jobs, increase production and limit outsourcing by U.S. companies to ten percent of total production. The bill would create a fair market in which all companies compete under the same economic conditions. The advantages afforded to the Japanese companies, such as lower taxes and a weaker yen, are eliminated. The result is a competitive and productive industry which will provide needed jobs for the unemployed workers, ensure steady demand for those industries that rely on U.S. auto production, increase revenues for the U.S. Treasury and assure the U.S. consumer a large choice of cars at competitive prices.

The **Chairman**. Congressman Sawyer, you have been waiting very patiently.

## STATEMENT OF HON. HAROLD S. SAWYER, U.S. REPRESENTATIVE FROM MICHIGAN

Mr. SAWYER. Thank you very much.

I may say, for those who are not aware, that I am a Republican and I am in favor of free trade. I am from Michigan, but they manufacture no automobiles in my district and we have only a handful of parts manufacturers, and no automobile executives.

Also, as a matter of interest, I have been targeted each of the four times I have run for Congress by the UAW, who wholeheartedly opposed me each time. So if that is not enough, I have already announced I am not going to seek reelection. So I am not here out of any great political motivation.

I have just become gradually convinced, as I have gotten into this subject—and if I may say so, the first time I was up in the House I voted against the domestic content bill because I basically do not like trade obstacles. This last time I not only voted for it, but I took it to the well of the House and urged my colleagues to vote for it.

We are not talking about manufacturing ballpoint pens, fountain pens, widgets or gadgets. We are talking about manufacturing a product that affects one out of every six jobs in the United States. Automobiles, strangely enough, are the biggest consumers of carpeting, even as opposed to the housing industry. They are the major consumer of malleable iron, a huge consumer of steel, rubber, glass, copper and so forth.

So you are talking about an industry which is almost on an equal with housing when you talk about its importance to the entire economy. This is not a selfish Michigan issue. This is one which ripples all over the country; also, one that we need viable for our own national defense.

We do not make any steel in my district either, but I also feel very strongly about the steel industry. Our survival depends on these industries so we must protect them.

As Senator Riegle observed, Chrysler and Ford are selling at two times earnings, which tells you what the sophisticated financial people, the stock purchases and investors, think of the future of our automobile industry. When you have an industry of that size and scope selling for two times earnings, it is in trouble. I always pay more attention to the stock market as a predictor of economy than I have most economists, and I think that it is telling us something and we should pay attention.

It is not just competing nose on nose. First of all, the Japanese will not internationalize the yen, and we lose $750 advantage to the Japanese on every automobile they sell in the United States because of the pure difference in the value of the yen and dollar, the disproportionate value.

And then when they give refunds on exports for their value added tax and so forth, that pyramids up to a $2,000 structural disadvantage on every car. This has nothing to do with bonuses to automobile executives or high salaries or wages for automobile workers. This is pure structural disadvantage of $2,000 an automobile, and we are not doing anything about that either.

Now, the big red herring that I have heard Ambassador Brock and others mention the bonuses of the automobile executives. Well, domestic content will not in any way perpetuate those.

The quota system might, which we use now, allow us a protected market. But here the Japanese will be free to sell, without quota restrictions, all of the automobiles they can. It is the labor content that we want in the United States, and that will not affect the profitability or anything else of the automobile companies or the bonuses of the automobile executives.

And I get amused at how all of a sudden we get this scream that an executive at Ford made $4.1 million. Who kicks about Herschel Walker or Magic Johnson or Johnny Carson? They are not running operations which are feeding one out of six people in the United States. The answer is nobody. It is just a good red herring to oppose this bill.

I think this bill does nothing but bring home some American jobs. Even our domestic companies are out-sourcing over 2 million engines and 1.7 million transmissions.

And I heard Senator Danforth refer to McDonnell Douglas. Well, sure, the aircraft industry is not subject to a legalized domestic content by the Japanese, but it just so happens that McDonnell Douglas finds it very convenient to buy a minimum of 25 percent of their parts and labor in Japan in order to sell to the Japanese Government airlines. That just is not purely accidental.

As a matter of fact, the Japanese have been, in effect, using the United States pretty much like the British used to use India. They dump all of their manufactured goods on us and all they will buy from us is raw materials: Food, fiber, and wood.

They will not buy processed food, either. They do the labor content themselves. They just buy the food, and they restrict it to the point that they are paying three times the world price for rice in Japan, which we could provide and reduce their consumers' costs two for one. A dollar an orange, that kind of protection.

And we tolerate it. To tell you the truth, I am a little Irish and it gets me mad when I watch and see us being used like that at the expense of our people. While I am not at all anti-Japanese, I am anti being taken advantage of.

I thank you very much for the opportunity to come here and talk to you fine gentlemen.

The CHAIRMAN. I wish you would run for reelection.

Jack?

Senator DANFORTH. I have no questions, Mr. Chairman, other than to say that I did talk to McDonnell Douglas yesterday. It is a very important constituent of mine. Twenty-Eight percent of their sales are in international markets, and their view when asked was that if something like domestic content were applied to their business they would be sunk.

Mr. SAWYER. As I observe, they voluntarily happen to buy 28 percent of their parts in Japan to sell to the Japanese. I did not say it was required.

Senator RIEGLE. We will ask them about that.

I want to say that I think your presentation this morning has been a very important one to the committee, and I think it is exceptionally meaningful because of the political considerations or the absence of political considerations that you mentioned.

Mr. **Sawyer**. I have never been so free of them, as a matter of fact.

Senator **Riegle**. I would say, Congressman, that you have a record of independence and outspokenness over a long period of time that is the envy of many. I think you have always been quite willing to speak your mind.

Mr. **Sawyer**. Yes. That is why I keep being targeted.

Senator **Riegle**. Perhaps that is so. But I think it is important to note that you represent the district Gerald Ford represented in the House of Representatives for 25 years and the fact that you have reached this conclusion after a lengthy study, and are worried about the future of the country. You do not see this as a special interest pleading for one group of workers or for one sort of narrow set of firms—if that is all it was, it would be an empty plea and we should not be here.

But we are talking here at a time when the trade deficit has hit $120 billion on an annual rate, and where cars and trucks are the largest single component of that problem. With that deficit and all of the spillover effect down the line in the economy, we are talking about a danger to this country which is unprecedented in modern history.

And I must say, I do not know if the Congressman would agree with me or not, but I see an analogy here, in a sense, to the Vietnam war, and I would like to draw it with you in this sense. When we got into the Vietnam war years ago, I do not think there was an understanding of the fact that we were step by step making a strategic commitment and getting involved way beyond what the original plan was thought to be.

And it was not until it had happened, much later down the line, that we realized the problem had been transformed from one sized problem to a totally different dimension at the end, at great harm and suffering to our country.

I think what has happened here with this trade deficit is similar. It is one thing if it is quite small and you are talking about one more Toyota on the margin or one more television set on the margin or one more machine tool on the margin. That may not really matter much in the overall scheme of things.

But when you add it up and it reaches $120 billion a year, with the network of restrictive trading practices around the world and particularly in Japan, it reaches a strategic dimension, and it is now starting to drain fundamental economic strength out of this country on a scale that is doing and will continue to do permanent damage. And we have to do something about it.

The people who say do not do anything about it and who offer no constructive answer I think run the risk of running the United States into a situation where we become so weakened that we will not be able to recover sufficiently down the line.

And then the prices that will be charged for foreign cars or foreign machine tools or whatever is going to go up. We will not get any bargain prices. Once foreign importers have broken the back of major industries and major firms in the United States, they will drive the price even higher.

And what will happen will be worse than what we are already seeing. Today General Motors, our largest industrial company in the United States, has fewer employees than the McDonald's hamburger company, and that is because more and more we are being pushed into service industry jobs, closer and closer to the minimum wage scale of $3.35 an hour.

And on the other hand, we look and see that the median price of a new house in the United States last month was $96,000, and there is no way, if we are going to be flipping hamburgers rather than building cars, that we will be able to preserve and have the kind of living standard that has been the envy of the world, that is so much a mark in your district and throughout our state and throughout the country.

And it seems to me you have helped illuminate those issues as well as anyone today, and I thank you.

Mr. SAWYER. On manufactured goods, with Japan alone we are running a $30 billion deficit. And on all of the raw materials and everything else we ship them, we only recapture $7 billion of it, and they are not even making half enough to feed themselves.

And incidentally, Carl Levin overstates the situation. France used to limit their market to 3 percent Japanese, but they have now reduced it to 2.1 percent. So it has gotten even tighter, just so the record is clear.

The CHAIRMAN. Russell?

Senator LONG. No questions. Thank you.

The CHAIRMAN. Wendell?

Senator FORD. No, thank you. I enjoyed your statement.

Mr. SAWYER. Thank you.

The CHAIRMAN. Congressman, thank you.

Mr. SAWYER. Thank you very much.

[The statement follows:]

### STATEMENT OF HON. HAROLD S. SAWYER, U.S. REPRESENTATIVE FROM MICHIGAN

Mr. Chairman: I really appreciate this opportunity to testify today on an issue of great concern to my home state of Michigan * * * Domestic Content Legislation. While our country as a whole is undergoing a sound, healthy recovery; Michigan has yet to feel any discernible difference. This is especially apparent in the auto industry, which accounts for *one* out of every *six jobs* in *this country* today, where thousands of workers are still without jobs. We have found that the major cause of the automobile industry's problems is foreign competition, especially from Japan.

Consider for a moment the following facts:

—the strength of our auto industry is crucial to the economic health of the nation. The auto industry consumes: 21% of our steel; 50% of the malleable iron; 34% of the zinc; 12% of the primary aluminum; 13% of the copper and 60% of the synthetic rubber.

—imported automobiles have penetrated over 30% of our domestic market. Even with voluntary import restraints, the Japanese hold roughly 40-50% of this nation's small car market, and 22% of all cars sold in this country. In California, long a trend setting market, imports account for *more than half* of the cars sold.

—we are the *only* country that does not severly limit the number of automobiles it imports. Japan controls the flow of automobiles through a variety of standards, inspection and marketing restrictions. A number of countries have established quotas limiting Japanese imports—France-2.1%, Italy-2,200 cars, Germany-11%, and England-10% of their markets. Thirty-nine countries have domestic content requirements—and Japan requires domestic content in our aircraft sales to them.

—U.S. auto companies are continuing to increase their "outsourcing" of parts to foreign manufacturers. Annually, over two million engines and 1.7 million transmissions are imported to the U.S. and Canada. The accounting firm of Arthur Andersen predicts outsourcing by American manufacturers could reach 20-25% by 1990.

—the Japanese refuse to accept our exports that involve labor content, taking only raw materials. In addition, they test every box of soap that comes into their country. Japan has an estimated $30 billion trade surplus with the U.S. this year on manufactured products, but because of the quotas imposed by the Japanese Government, the U.S. has only a $7 billion surplus in agricultural and forest products, mainly citrus, beef and plywood exports. Relaxing the quotas that protect Japanese farmers would enable the U.S. to sell more of these products there and greatly reduce the price the Japanese consumers pay for food—for example, $1.00 per orange and three times the world price for rice.

These facts alone point to the critical inequity in our trade balance.

Last year, the Japanese threatened to (at first), end their voluntary auto imports into the U.S. completely, then, revised that by stating their intention *not to exceed* their limits at the *present level.* This action prompted the introduction of legislation which urged the Japanese not to increase the number of automobiles they ship to this country once the current trade agreement expired on March 31, 1984.

The Japanese agreed to a one-year extension, but we (the U.S.) caved in and increased their (the Japanese) automobile imports from 1.68 million to 1.85 million. This agreement was a giant giveaway. It insured no new investments by the Japanese in the U.S. It did not deal with the adverse effects caused by the yen-dollar imbalance which penalizes us $750 on the average car (over a $2,000 penalty when their tax subsidy on each exported car is added). It guarantees no movement by our domestic firms away from outsourcing. What it will surely do is put the economic survival of an estimated one million American workers at stake with no ability to absorb these jobs elsewhere in our employment market.

Recently, the Administration announced that they would not seek an extension of the Japanese voluntary restraint agreement for its automobiles. They pointed to the unprecedented profits being made by the auto companies as proof that they no longer needed protection from imports. But, American companies rely on the extension of these quotas to make a profit. Eliminating these quotas, with no form of protection in its place, will be devastating to the industry and our economy as a whole.

Domestic content legislation is a far more economical alternative to quotas without the problems quotas have created. Quotas provide no incentive for American auto companies to produce a competitive small car. The purpose of quotas was to give the U.S. a period of time in which to produce a small car that will compete with its Japanese counterpart. But, car companies have not come up with a competitive product they have only increased their profits * * * and in turn, the Japanese have profited. The ultimate loser is the American consumer who is forced to pay higher prices because of decreased competition.

The domestic content bill will not cause this economic hardship. This legislation simply requires that every company, foreign or domestic, invest a certain percentage of their production in this country, eliminating the advantage of lower taxes and a weaker yen that the Japanese enjoyed. Their companies will be manufacturing under the same conditions as our companies are so competition will increase and the price of cars will come down.

We cannot allow the Japanese to continue their practice of one-sided deals. The domestic content bill will send word to Japan that we refuse to continue playing their games. Our trade with Japan has become seriously unbalanced. We need to reduce this imbalance, and it would be in the best interest of the Japanese to assist in lowering it. This measure will not solve the problem, but *it is a symbol.* It is high time the U.S. focus more attention on the problems at home. I am a strong advocate of free trade, but when American workers, our major industries, and our economy suffer * * * that's where we should draw the line. The auto industry is important to the future of this country, and we rely on it to maintain our defense posture. We cannot afford to let a major industry of this scope be raped by foreign competition. It's only fair that if a country wants to compete in our automobile market they should build factories here and hire American workers.

The House has already passed this measure and I would strongly urge my colleagues in the Senate to follow suit. The big winners if this measure is passed are American workers who keep their jobs and American consumers who can buy good cars at reasonable prices. The domestic content bill will not only protect the auto industry, it will help other industries that deal in the foriegn market place. This legislation will send a clear message to the Japanese that we refuse to let this abuse of trade continue and we won't sit and let our industries go down the tube.

The **Chairman.** If I might say to the witnesses, it is now about 11 o'clock and we will go as long as necessary today straight through.

The next panel includes: the Honorable Sidney L. Jones, Under Secretary for Economic Affairs, U.S. Department of Commerce; Dr. Philip Haseltine, Deputy Assistant Secretary for Policy and International Affairs, Department of Transportation; and George Douglas, a Commissioner, Federal Trade Commission.

Gentlemen, I have read all of your statements. You were good enough to get them in ahead of time. If you could abbreviate them so that we could ask you questions, we would appreciate it. I know there are many questions to be asked. And of course, your statements will be in the record in their entirety.

Secretary Jones.

## STATEMENTS OF SIDNEY L. JONES, UNDER SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF COMMERCE, ACCOMPANIED BY MICHAEL DRIGGS, DEPUTY ASSISTANT SECRETARY FOR AUTOMOTIVE AFFAIRS AND CONSUMER GOODS; PHILIP HASELTINE, DEPUTY ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION; AND GEORGE DOUGLAS, COMMISSIONER, FEDERAL TRADE COMMISSION

Mr. JONES. Senator, thank you. Mr. Chairman, I will briefly summarize my statement and respond to questions.

I have with me Michael Driggs, Deputy Assistant Secretary for Automotive Affairs and Consumer Goods.

The administration has consistently expressed its opposition to domestic content legislation in testimony before this committee and in consideration of similar legislation by the House of Representatives. This opposition is based upon eight fundamental points.

First, the adoption of restrictive legislation to halt the importing of significant numbers of automobiles would be inconsistent with our international goals and responsibilities, which are to contribute to a beneficial international economic growth, of which the United States will be the major beneficiary as the largest manufacturer in the world. The application of domestic content rules would be antagonistic to the fundamental economic, political, and military security goals of the United States.

Second, the use of arbitrary domestic content legislation is widely recognized as a destructive trade policy tool that is inconsistent with the development and expansion of an open and competitive international trade system. The world has clearly benefited from the expansion of trade. Indeed, imports are a desirable thing. They raise our standard of living, and there are numerous examples of serious injury created by protectionism.

The purpose of multinational trading rules, such as the GATT and bilateral trade treaties, is to promote trade and imports and exports, rather than to restrict the exchange of goods and services.

Third, the domestic content legislation would represent bad economic policy by destroying markets and efficient allocation of resources. Even a superficial review of past efforts to arbitrarily restrict the marketplace's decisions indicates the futility of trying to frustrate the desires of consumers. For example, the voluntary restraint program in steel in the late sixties and early seventies.

Fourth, acceptance of domestic content legislation in the automobile industry would quickly spread to other industries, putting us on the slippery slope toward extensive protectionism. To force arbitrary restrictions on the choices of 230 million consumers would be unfair. It would restrict their choice, raise their costs.

It would be inefficient in the allocation of resources, and eventually and relatively soon it would become unenforceable when the 230 million Americans found out what was being done to them.

Fifth, domestic content legislation would inevitably lead to strong retaliation from other nations, because it would violate clearly established GATT and bilateral trade agreements, and because it is so obviously discriminatory that other nations would be required to, and certainly justified, in creating similar barriers.

It is not that they would pull out their sales. It is that they would discriminate against our exports. The entire U.S. economy would suffer as our exports of agricultural, manufactured products and services would become the victim of retaliation. Congress should consider the interests of the entire $3.5 trillion U.S. economy, not a specific problem.

Sixth, the proposed legislation would not benefit the domestic automobile companies or their employees. By distorting the allocation of resources, their real competitive strength would be diminished and the basic need for product innovation, cost controls, and competitive marketing strategies would be temporarily concealed, leaving U.S. companies in a poor position to compete once the inevitable consumer backlash occurs and the pressures from other exporting industries and other nations becomes overwhelming.

Seventh, the argument that the passage of domestic content legislation would be an effective message to Japan—I do not understand why Japan is the only nation being talked about here—is both technically wrong and inefficient. It would also be inconsistent with broader U.S. goals and responsibilities.

The best way to send a message to Japan, or any other country, is by becoming more efficient and competitive, and then by pressing our national interest in tough bilateral and multilateral hearings. The International Trade Commission has already explicitly ruled in 1980 that the imports are not the substantial cause of injury to the U.S. automobile industry, but it was the economic conditions of the recession that took away 3 million domestic starts.

The only message this legislation would send is that a specific U.S. industry is either unable or unwilling to compete after more than 80 years of international leadership. The infant industry argument is frankly not persuasive.

Senator RIEGLE. Mr. Jones, before you go ahead, can you recall what the vote was on the ITC on the import decision?

Mr. JONES. I have only the votes here. I do not know the numbers.

Senator RIEGLE. You do not know the numbers? What was the vote?

Mr. JONES. That it was not the substantial cause of injury.

Senator RIEGLE. I think the vote was 3 to 2. It was a one-vote margin.

Mr. JONES. I do not know.

Senator RIEGLE. Would you get it for the record? You will find it was a one-vote margin. It was a very, very narrow decision. One vote would have changed the outcome.

Mr. JONES. Yes, sir.

Eighth and finally, the United States should realize that we live in an increasingly integrated world economy. Our markets, our currencies, our financial interests, our access to raw materials, are all carefully integrated. The United States is the world's largest participant in this economy. It is the largest exporter and it is the largest importer. It is the most important currency. It is the largest creditor. It can be the largest borrower in the relatively near future, and it is the largest user of raw materials.

Measured in both pragmatic and philosophical terms, acceptance of domestic content legislation would be a major step backward for the interest of American consumers, workers, farmers, and businesses.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

[The statement follows:]

### STATEMENT OF SIDNEY L. JONES, UNDER SECRETARY OF COMMERCE FOR ECONOMIC AFFAIRS, DEPARTMENT OF COMMERCE

Mr. Chairman, I appreciate the opportunity to testify on local content legislation.

In December 1982, Secretary Baldrige appeared before this committee to explain the administration's opposition to S. 2300, the version of automotive local content before you then. Conditions in the U.S. auto industry and the economy as a whole were still not healthy, although some signs of imminent recovery were apparent. He emphasized the fact that local content legislation would not help the U.S. automobile industry. It would only serve to impede the overall economic recovery.

Much has changed since then. Unfortunately, the substance of the bill before you has not. Accordingly, the administration is just as strongly opposed to S. 707 as to its predecessor. The adverse economic and trade effects are, if anything, even clearer.

But first, the good news. The U.S. auto industry has been a major beneficiary of the economic recovery. As we emphasized the last time, economic recovery provides the most effective help to the industry.

In 1982 the industry had to cope with a continued market decline, and high capital requirements for producing new, fuel efficient models at lower cost. In 1983, the favorable impacts of both the economic recovery and the industry's restructuring programs became very clear.

Sales of domestically-made cars rose 17 percent in 1983 over 1982. The 1984 first quarter increase has been about 37 percent over 1983. The new models that GM, Ford, Chrysler, and AMC have introduced have led the way. For 1984 as a whole, we now look for total car sales of about 10.4 million units, up 12 percent from 9.2 million in 1983. Virtually the entire improvement should be in domestics. Manufacturer and dealer inventories are still tight, even though 1983 U.S. car production ran almost 34 percent ahead of 1982 and was nearly 43 percent ahead of 1983 during the first quarter of this year.

When 1983 ended, the number of U.S. auto workers on indefinite layoff had fallen over 125,000 from its peak of last year. As production continues at high levels and, indeed, moves higher, we expect that the number of workers employed in the industry will grow from the 1983 average of 723,000. Meanwhile, the industry, labor, the administration and Congress are working together on programs to retrain unemployed workers, especially those in hard hit industries like autos, and to help them find new jobs.

In 1978, the U.S. auto companies built 12.6 million cars and trucks, and had earnings of $4.8 billion. In 1983, on production of about 9.2 million units, the companies made $6.15 billion. This is clear evidence of the success of the U.S. auto industry in cutting costs, increasing productivity, and marketing high-quality vehicles. For 1984, profits should be over $10 billion. For first quarter 1984 alone, earnings of the big three were $3.2 billion.

The industry's rebound has produced direct financial benefits to Government. Chrysler has been able to repay $1.2 billion in Federally-guaranteed loans seven years ahead of schedule. Michigan has so increased its State revenues that its budget crisis of 1982 is over, its bond rating has been raised, and there are reports that it will have a budget surplus of $156 million this year.

In the last year, we have also seen more commitments by major Japanese auto manufacturers for plant facilities in the United States.

By 1985, as the recovery continues, total car and truck sales will be about 14.2 million units, a 37 percent increase over 1982.

In short, even though competition is still stiff and the economic health of the industry still has room for improvement, the crisis in the U.S. auto industry has passed. Local content legislation was never the answer to the problems that the auto industry experienced over the past three years. Nor can it further the industry's recovery. It is unnecessary, and it will do grave harm.

Local content is blatantly protectionist. It will permanently insulate the auto industry from foreign competition, while preventing it from utilizing the lowest cost sources of supplies. Actions of this sort inevitably backfire, and though they may yield some short-term, minimal benefit for one sector of the economy, they adversely affect the economy as a whole.

The impressive recovery of the U.S. auto industry in 1983 and its equally impressive performace so far this year graphically demonstrate that this is not an industry that needs permanent protection. H.R. 1234 contains a phase-out provision that its proponents say addresses the problem of permanently restricting the market. The experience of other countries with local content laws shows that once in place, content requirements are seldom even reduced, much less eliminated. The domestic auto industry becomes dependent on the protection local content affords from foreign vehicles that may be more attractive, higher quality, or less costly.

Labor depends on local content to insulate workers from the need for productivity increases and competitive wage and benefit levels. In this kind of atmosphere, the return to a free market is economically and politically improbable. In short, the idea that local content can provide temporary relief simply because the President has the authority to phase it out a few years down the road is a sham.

S. 707 contains essentially the same content requirements as the version of H.R. 1234 that passed the House last November. The House bill contains technical amendments providing for studies of sectors of the economy that may be affected by domestic content. But there are also two confusing and potentially dangerous amendments in H.R. 1234.

One amendment attempts to avoid the fact that domestic content blatantly repudiates our obligations under the General Agreement on Tariffs and Trade (the GATT) by declaring that auto imports have caused or threatened injury to the domestic auto industry. This declaration is unsupportable and undermines the independent authority of the International Trade Commission, which has found explicitly that auto imports are not the substantial cause of injury to the U.S. industry.

The other provision declares that the legislation is not intended to confer jurisdiction on any Federal court to hear cases involving conflicts between U.S. trade or treaty obligations and domestic content requirements. This language can only cause confusion and possibly prejudice the rights of U.S. citizens to protect their interests under the GATT or U.S. treaties.

This year, as before, the supporters of local content claim that the bill will save or create hundreds of thousands of auto industry jobs, bring Japanese manufacturing facilities to the United States, and make our U.S. industry more productive. Now they also argue that these two amendments will assure that neither Japan nor any other U.S. trading partner will be justified in taking protectionist steps in reaction to the legislation.

Each of these claims is unfounded.

## AUTO SECTOR IMPACTS

The promise of massive jobs creation is an empty one. After accounting for jobs lost elsewhere in the economy, local content is nothing more than a shell game. The supporters of the legislation have not provided us with a detailed economic analysis of the bill as it is now written. They have stated that the overall impact of H.R. 1234 will be substantially the same as that of H.R. 5133, the 1982 version of this legislation, and that S. 707 will have similar effects. Since no economic analysis was published to substantiate this claim, we did one ourselves.

Our analysis, which I have attached to this statement,[1] shows that enactment of H.R. 1234 or S. 707 would, during the first year of full implementation, increase the price of an average car by about $450. Japanese car sales here will decline by about one million units. American car makers will not be, however, the automatic beneficiaries of the lost Japanese sales. On the contrary, their volume will rise by less than 200,000 units, as consumers react negatively to higher prices and a reduced selection of offerings. The bill would result in a net increase of only 6,500 jobs in the auto and parts sector, after taking into account job losses at ports, dealerships, and U.S. facilities of Japanese auto companies. The aggregate cost to the consumer through higher prices would be $4.8 billion, or about $740,000 per net new job. And this ignores the jobs that would be lost because of protectionist measures taken abroad. In effect, the American consumer would be forced, at a heavy price, to subsidize jobs in the auto sector.

The analysis was based on assumptions that we believe are reasonable in light of the extreme and permanent restrictions that local content would impose. Two assumptions are of special importance:

1. Japanese auto companies will try to achieve maximum U.S. content at minimum cost. They will, for example, purchase U.S.-made parts to install on Japanese autos in U.S. ports. This could allow most manufacturers to bring in up to 400,000 cars each without any new investment in the U.S.
2. Japanese manufacturers will close their U.S. production facilities. The manufacturers have testified that they will be unable to support higher cost U.S. operations in a restricted market. Their testimony is consistent with the theory that a company attempting to sell in a permanently restrained market can only be expected to do so from its most efficient production base. The small volumes and higher production cost for U.S. operations would disrupt the Japanese production system and would be uneconomic.

Major foreign auto manufacturers would be hard put to justify U.S. operations in the face of a local content law, but they have found U.S. investments attractive without such restrictions. Volkswagen, Honda, Nissan, and now Toyota (in cooperation with GM) are all committed to produce cars in this country. Honda has announced that its U.S. operation is so successful, they are doubling its capacity in the next two years. Why threaten those commitments, and others that are possible in the future, by imposing what is, in effect, a permanent quota on foreign-produced autos?

### U.S. MANUFACTURERS

Rather than helping the U.S. auto industry, local content would ultimately hurt it. "Locking in" U.S. manufacturers at a 90 percent level of local content will prevent them from seeking the lowest cost sources of supply. Thus, while foreign manufacturers will be acting to hold down costs by purchasing parts wherever supplies are least expensive, U.S. companies would be hamstrung. Their competitiveness would steadily deteriorate.

### IMPLEMENTATION

I want to add to the list of objections to local content a matter that has been documented in detail. Quite simply, a local content law would be a legal and administrative nightmare. Steps involved in rulemaking, responding to GATT objections, and rule enforcement would stretch out over a number of years after the bill's enactment. The Department of Transportation estimated that its enforcement bureaucracy would employ about 120 permanent workers and cost over $7 million a year. This kind of effort and expense cannot be justified by any reasonable expectation of benefits.

The Department of Commerce has prepared a flow chart, which I have attached to my statement, that describes graphically how complex and time consuming this implementation process would be.

### RESPONSE OF OTHER COUNTRIES

It is a fallacy to argue that local content will strengthen U.S. trade policy, "send a message to the Japanese," or be the "teaspoon full of protectionism" that will make free trade go down easier in other countries.

Local content would be a major setback for U.S. trade policy. Since the end of World War II, every administration and every Congress, in a bipartisan effort, has pursued the goal of free and fair trade. If local content becomes law, the Japanese and our other trading partners will have no reason to take seriously our calls to remove trade barriers. America will have repudiated its traditional leadership on free and fair trade by erecting protectionist barriers to autos.

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[1] See House hearings on H.R. 1234.

The damage that local content would do to our trade policy is matched by its threat to U.S. exports. Despite attempts to declare otherwise, it will violate the letter and spirit of the GATT. If the United States is deemed to have violated the GATT, as this bill certainly would do, we will be required to reduce tariffs on an amount of Japanese goods equal to the cost of the violation. If we fail to reduce tariffs, Japan will have the GATT-legal right to take retaliatory measures to keep out the same dollar volume of U.S. goods. Perhaps even more importantly, enactment of local content would erode the political will of other countries to face down their own internal protectionist pressures. They would be unable to resist. Thus, our protectionist step would invite more of the same by other nations.

How far other countries would go is uncertain, but enactment of this legislation will inevitably put an additional, severe strain on our trading relationships.

To sum up, I want to stress the following points:

1. The U.S. auto industry is playing an important part in our economic recovery. The industry's program for increased productivity and competitiveness is showing real results in lower costs, higher quality, and improved sales.

2. Local content is not jobs creation legislation. It could, in fact, become a jobs destruction bill. It merely reshuffles the employment deck across the whole economy and threatens in the process to deal us all fewer cards.

3. This bill is not the way to "send a message to the Japanese" or to anybody else. We do that by continuing to press hard for trade liberalization, not by encouraging protectionist moves by other countries.

So, while most of the problems that domestic content was supposed to remedy are being solved, another problem, the legislation itself, remains unchanged. This is why we are so strongly opposed to H.R. 1234 and S. 707. This year you may have a vote. If that vote is based on all the facts, we are confident that the bill will be defeated. Furthermore, I am advised by the OMB that enactment of S. 707 would not be in accordance with the program of the President.

Mr. Chairman, I will be happy to answer any questions the committee might have.

The **CHAIRMAN**. Secretary Haseltine.

Mr. **HASELTINE**. Thank you, Mr. Chairman.

I will limit my remarks to strictly those areas in S. 707 which would affect the Department of Transportation. We join the rest of the administration in our strong opposition to the bill, but leave it to other administration witnesses to discuss the broad economic and trade implications.

Under this proposed legislation, the Secretary of Transportation would be charged with establishing detailed rules for determining the compliance of each manufacturer and for enforcing that compliance. While the concept of domestic content sounds simple, its actual measurement is vastly complicated by the need to account for the foreign content of the many parts and components purchased by the manufacturer. Obviously, we cannot deal with just the country where the car is assembled, because the bill seeks to control both foreign car imports and outsourcing for parts by U.S. car manufacturers.

If it is the intent of Congress to make the domestic content requirement supportive of all American workers involved in auto production and not just those who manufacture and assemble the major components, we will literally need to be concerned with where the nuts and bolts come from.

In doing so, we may be impacting 40,000 firms, more than half of which have less than 25 workers, 40,000 suppliers of the domestic auto industry. To verify claims of domestic content, we might need to examine records of the purchase of domestic components, information on where the firm bought parts or materials, and how much was paid for them. This is something most manufacturers now consider confidential and proprietary.

We are not sure how far the Department could go in compelling firms to provide this data, nor what the Department's or the Government's liability would be if a firm was injured by the compromise of proprietary information. There are also questions on how the Department would deal with joint production, like the proposed Toyota-GM arrangement.

How do we deal with suppliers who deliver to several manufacturers and who may import part of their raw materials, with purchases of imports spread over time, different accounting systems, differing inventory systems? How do we treat foreign manufacturers who set up plants in the United States but use imported machine tools? Is it intended that we consider all of this value added as it were truly made in the United States?

These questions bear directly on the size of our administrative operation, Mr. Chairman, the cost to the Government and the overall cost and burden it imposes on the industry. An in-house determination last year set the price tag at an industry cost of $50 million to $100 million per year, with as many as 120 more people needed in the bureaucracy, costing the Government up to $25 million annually.

A contractor we just brought in to make a more detailed estimate concluded that the rulemaking alone would require 54 Government people and $8 million annually, along with about the same in private dollars.

This legislation seeks to benefit employees of one industry, but I point out in our view it merely shifts the problem of unemployment resulting from the transition in the auto sector to other sectors. We find that by restricting imports in order to support employment for auto workers, it will create unemployment among dock workers, as has been mentioned, and others involved in handling of imported cars.

If domestic content were to reduce automobile imports by 1 million units per year, it would cost the jobs of about 4,500 workers now directly employed in unloading and preparing imported autos, plus thousands more indirectly involved in their transport, sales or services.

To summarize, Mr. Chairman, the Department of Transportation strongly opposes S. 707 because of the dramatic administrative and regulatory burdens it would impose on industry and Government, because of the cost consumers would ultimately bear as a result of this legislation, and because of the unnecessary hardship which would accrue to other industries.

The Department believes the economic rebound now occurring in the domestic auto industry is far preferable to any result which could be derived from Government intervention, and that the improving health of the auto industry renders such intervention unnecessary.

Thank you.

[The statement follows:]

## STATEMENT OF PHILIP HASELTINE, DEPUTY ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION

Good Morning, Mr. Chairman and members of the Committee. I am Philip Haseltine, Deputy Assistant Secretary of Transportation for Policy and International Affairs. I am pleased to be here this morning to convey the Department of Transportation's strong opposition to the proposed "Fair Practices in Automotive Products Act," S. 707. I will limit my remarks to the specific concerns of the Department of Transportation, allowing other Administration witnesses to discuss the broader economic and trade implications of this legislation.

Since the Secretary of Transportation is given the statutory responsibility under S. 707 to administer and enforce domestic content requirements, our concerns are primarily of an administrative and regulatory nature.

However, because of the adverse effects this legislation would have on the maritime industry, dockworkers, ports and related activities, I am also compelled to advise the Committee of the serious maritime implications of this bill, as well.

As you know, the bill requires that each manufacturer which sells cars in the U.S. have an overall domestic content for those cars based on the volume of sales for the year. The requirement begins at 10 percent for a manufacturer selling 100,000 cars per year in the U.S. and rises to 90 percent for the manufacturer selling 900,000 units or more. Domestic content is measured in terms of total factory sales revenue for the manufacturer and the total value of imports by or for the manufacturer. The Secretary of Transportation is charged with establishing detailed rules for determining the compliance of each manufacturer, and for enforcing that compliance.

While the concept of domestic content sounds simple, its actual measurement is vastly complicated by the need to account for the foreign content of the many parts and components purchased by the manufacturer. How deeply do we go down into the manufacturing process to test for domestic content? Obviously, we cannot deal with just the country where the car is assembled, because the bill seeks to control both foreign car imports and outsourcing for parts by U.S. manufacturers. we, therefore, must include consideration of parts and materials that go into a car. There are a few dozen very large supplier firms whose names are familiar to most of us, but actually there are about 40,000 firms, large and small, that supply parts, materials, equipment or services to the auto industry. Where do we stop? Are we concerned with where the steel comes from? If we go back that far, are we also concerned that virtually all the iron, aluminum, chromium, and many other ores, as well as natural rubber and part of the petroleum used as feedstock for plastics and synthetic rubber, may be imported?

If it is the intent of Congress to make the domestic content requirement supportive of all American workers involved in auto production and not just those who manufacture and assemble the major components, we will literally need to be concerned with where the nuts and bolts are coming from. In doing so, we may be impacting 40,000 firms, more than half of which have less than 25 workers. These small firms account for only about 11 percent of all auto manufacturers' expenditures to suppliers, but the bill allows only 10 percent foreign content for our big three manufacturers. We must, therefore, be careful to examine sources that may collectively contribute only a few percent to foreign content.

In administering such legislation, the Department would have to determine what information it could ask firms to supply. The bill defines domestic content in terms of money value—essentially the factory sales price less the price of imported components, divided by factory sales price. To verify claims of domestic content, however, we might need to examine records of the purchase of domestic components. Information on where the firm bought parts or materials and how much was paid for them is something most manufacturers consider proprietary and confidential. Could the Department compell firms to provide this data? What will be the government's liability if a firm is injured by compromise of proprietary information?

There are also questions on how the Department would deal with joint production, like the proposed GM-Toyota arrangement. How would we deal with suppliers who deliver to several manufacturers and who may import part of their raw material, with purchases and imports spread over time. How do we treat a foreign manufacturer who sets up a plant in the U.S. but uses imported machine tools? Is it intended that we consider all of his value added as truly "made in U.S.A.?"

I bring up these questions because they bear directly on the size of our administrative operation, its cost to government, and the overall cost and burden it imposes on the industry. We have attempted to estimate the size and cost involved. A quick in-house determination last year set the price tag at an industry cost of $50 to $100 million per year, with as many as 120 more people needed in the bureaucracy—costing the government up to $25 million annually. A contractor we brought in to make a more detailed estimate concluded that, just the rulemaking alone, would require 54 government people and $8 million public dollars annually, along with about the same in private dollars. The contractor delivered his draft report only last week and we have not had a chance to review it fully. However, since he has so far analyzed only the manufacturers and not the supplier base, his estimate of costs might best be considered low or incomplete.

The administrative burdens and costs associated with the imposition of a new and complex regulatory scheme for the automobile sector, such as that envisioned by S. 707, should be considered in light of the recent trends toward transportation deregulation. A broad consensus has developed within Congress and the Executive Branch in recent years regarding economic regulation of transportation industries. The Congress, under previous and current Administrations has enacted a series of major statutes substantially reducing regulation of the aviation, trucking, bus and rail industries. This Committee has provided the primary leadership for these important initiatives, with the recognition that such economic regulation tends to stifle competition, reduce efficiency and inhibit innovation. Consumers are already reaping the benefits of transportation economic deregulation through lower costs and improved services. The industries themselves are more competitive, and growing stronger and more efficient as a result of deregulation.

S. 707 would, however, in many respects impose a stronger form of economic control on the automotive industry than the CAB had on airlines or the ICC on trucks, buses, and railroads. It would require auto manufacturers and their suppliers to divulge to the government every penny they spend, every penny they take in, and everyone they deal with. It would limit their freedom in product planning, restrict their profitability and endanger their capability and incentive to remain competitive. In light of recent trends toward reduced economic regulation, Congress must take a cautious, measured view of this legislation, considering the onerous regulatory burdens such a scheme would impose upon the automobile manufacturers and all ancillary industries.

While this legislation seeks to benefit employees of one industry, I would point out that, in our view, it merely shifts problems of unemployment resulting from transition in the automotive sector to other sectors. We find, for instance, that by restricting imports in order to support employment for auto workers in Detroit and other major auto-producing cities, it will create unemployment among dock workers and others involved in the handling of imported cars in the ports of New York, Baltimore, Jacksonville, New Orleans, Los Angeles, Portland and other ports on all coasts. If domestic content were to reduce automobile imports by a million units per year, according to our estimates, it would cost the jobs of about 4,500 workers now directly employed in unloading and preparing imported automobiles, plus thousands more indirectly involved in their transport, sale and servicing. If our trading partners responded to domestic content legislation with retaliatory trade barriers on U.S. exports, thousands of additional jobs would be lost, both in U.S. ports and in manufacturing and agribusiness.

To summarize, the Department of Transportation strongly opposes S. 707 because of the dramatic administrative and regulatory burdens it would impose on industry and government, because of the costs consumers would ultimately bear as a result of this legislation and because of the unnecessary hardship which would accrue to other industries. The Department believes that the economic rebound now occurring in our domestic automobile industry is far preferable to any result which could be derived from government intervention and that the improving health of the auto industry renders such intervention unnecessary.

The Office of Management and Budget advises there is no objection to the presentation of this testimony to the Congress, and that enactment of S. 707 would not be in accord with the program of the President.

I would be pleased to respond to any questions Committee members might have. Thank you.

The CHAIRMAN. Thank you.

Commissioner Douglas.

Mr. DOUGLAS. Thank you, Mr. Chairman and members of the committee.

I am pleased to be here today on behalf of the Federal Trade Commission to express the Commission's view on S. 707. We have a written statement and I will attempt to summarize it briefly.

The debate on this bill has been emotional at times. The stakes are high. The jobs of American auto workers are important, but so too are the jobs and economic welfare of all other Americans, including those working in the export industries. And of course, the price of cars is important to consumers and the economy as a whole.

The issues are complex, but they center around two things: Jobs and car prices. The principal question is whether protectionist measures in the long run will have their intended effect of saving American jobs.

As the Commission's representative, I am here today on behalf of workers and consumers. We represent no interest except that interest whose representation has been entrusted to us by the Congress, the public interest in competition and consumer welfare.

We are an independent regulatory Commission, composed of members with different political affiliations. We were appointed by Presidents with different regulatory views. We are united, however, in our strong opposition to this bill. It will raise prices without helping total employment. As a general rule, we oppose quotas and support free trade.

As one of the two agencies entrusted with overseeing antitrust enforcement, we are convinced that competition works. It also works in international trade.

How do trade restrictions affect the average consumer? They raise the prices of all goods imports and domestic goods alike. Let us look at what has happened to car prices since 1981, when the Japanese voluntary restraint agreement took hold. The average retail selling price for all new cars sold in the United States has risen by 18.8 percent, more than the Consumer Price Index. Consumers thus have had to pay $1,741 more per car than if car prices had merely kept pace with the Consumer Price Index.

The proposed legislation will have the same effect as a quota. We can expect higher prices for cars as a result. Trade restrictions do more than raise prices substantially. While they may be designed to save jobs, they may actually decrease total employment.

Foreigners, unable to sell to us, have fewer dollars. They are forced to cut back their purchases from us, causing jobs to contract in our export industries, from farming to fish packing and computer chip production. These contractions in turn cause disarray in our economic policies for other industries. Farming is a prime example.

Let us review some of the effects of the proposed legislation. First, as I mentioned before, it will be a big bite out of the national wallet. The direct effect of S. 707 would be to increase substantially the automobile prices paid by consumers.

This is a matter of great concern. The purchase of a car is one of the most important purchases made by consumers. We are not talking here about trivial rises in the price of inexpensive goods like toasters.

Foreign manufacturers who could not meet the domestic content requirement would either withdraw from distribution or limit their imports. What would this cost the consumer? Based upon a 1982 Congressional Budget Office analysis, we estimate that consumers will purchase fewer cars at higher prices, resulting in a welfare loss to consumers of $4.9 billion per year.

Let us put these losses into perspective. Assume, as does the CBO, that about 100,000 jobs are gained because of this legislation. This job gain, we submit, is a rosy projection, which assumes no trade retaliation. A simple cost calculation shows that consumers will pay about $49,000 per year for each job saved. That is not even counting the salary of the workers.

Second, it will cause reduced incentives and other effects on U.S. manufacturers. The American consumer's taste in cars has changed in the last decade. Foreign car makers were the first in line with cars that met these new tastes. However, this foreign competition has had several effects. Some people focus only on the negative side. For example, there was a loss in U.S. auto worker employment.

But there were many important positive changes. The competition from imported cars provided the necessary impetus to persuade American producers to build better, more appealing cars. The American car makers have shown they can compete. They now produce a variety of well-designed and well-built small cars that the American consumers find attractive.

Further, it presents dangers of retaliation. Legislation such as this cannot be viewed in isolation. That would be naive. Trade retaliation could have severe consequences. The Congressional Budget Office estimates that with retaliation employment in non-auto-related industries would fall by 173,000 persons.

Since the projected gain in the auto and related industries is only about 100,000 jobs, there is a large net loss of jobs. I ask you to examine the list of manufacturing industries that are the principal exporters to Japan, for they could be the prime candidates for any retaliatory measures. These industries include logging, electronics, meat packing, petroleum refining, chemicals, packaged fish, aircraft equipment, and lumber milling.

We also appreciate that the intent of this legislation is to make the imposition of restrictions gradual, so that dislocation of manufacturers is minimized. But if the greatest impact of this legislation is some years down the road, how does that help the worker unemployed now? While the employment benefits to the auto industry, if they are in fact achieved, would be felt over time, the inflationary aspect of this legislation would be almost immediate.

The American economy is now enjoying a relatively low rate of inflation, that has been achieved at significant cost. Special-interest legislation such as this would endanger continued price stability.

Some have argued that fairness dictates the passage of this legislation. We are very sensitive to the plight of the unemployed auto worker. The industry has been buffeted by the past recession and from strong competition abroad. Yet fairness cannot be measured in isolation. It must take into consideration the present profitability of the industry.

The CHAIRMAN. Commissioner, I must ask you to abbreviate the rest of your remarks, if you could, so that we can get to questions.

Mr. DOUGLAS. I want to note in closing that in the United States auto workers are paid about 160 percent of the salaries earned by workers in other U.S. manufacturing industries. Furthermore, we have all noted in the press the recent announcements of very substantial profit-sharing bonuses paid to U.S. auto executives.

So I would suggest, Senators, that in considering this bill and its fairness aspect that you consider the impact on millions of workers and consumers who do not earn 160 percent of the average manufacturing wage, and the others of us who also do not earn big bonuses paid the auto manufacturers.

Thank you very much.

[The statement follows:]

### STATEMENT OF GEORGE W. DOUGLAS, COMMISSIONER, ON BEHALF OF THE FEDERAL TRADE COMMISSION

I am pleased to be here today on behalf of the Federal Trade Commission to express the Commission's views on S. 707.

The debate on this bill has been emotional at times. The stakes are high. The jobs of the American auto worker are important. But so too are the jobs and economic welfare of all other Americans, including those working in export industries. And, of course, the price of cars is important to consumers and the economy as a whole. The issues are complex but they center around two things—jobs and car prices. The principal question is whether protectionist measures, in the long run, will have their intended effect of saving American jobs.

As the Commission's representative, I am here today on behalf of workers and consumers. We represent no interest except that interest whose representation has been entrusted to us by the Congress—the public interest in competition and consumer welfare.

We are an independent regulatory commission composed of members of different political affiliations. We were appointed by Presidents with different regulatory views. We are united, however, in our strong opposition to this bill. It will raise prices without helping total employment.

The Commission offers this statement with the confidence based on our expertise gained in studying the auto industry over the years and handling many antitrust and consumer protection cases involving that industry. In addition to a recent well-publicized joint venture, we have handled several recent important cases involving alleged competitive problems in the automobile distributional network and a major auto defects case.

#### AS A GENERAL RULE WE OPPOSE QUOTAS AND SUPPORT FREE TRADE

As one of the two agencies entrusted with overseeing antitrust enforcement, we are convinced that competition works. It also works in international trade.

What is the case for international free trade? The economist David Ricardo formulated an important principle called comparative advantage. It means that any group can get the most out of its resources by trading and specializing in the things it does comparatively better. If output of a product, any product, is produced by one nation or group when it could have been produced by another with a lower opportunity cost, the economy gives up more to obtain the good than is necessary.

Yet many believe that trade restrictions are necessary to protect American jobs from imports produced by cheap foreign labor. Foreign wages alone are not the whole issue. High hourly wages do not necessarily mean high labor cost per unit. If the labor is productive, per unit labor cost can be lower. It is the combination of the two that is important.

Labor in the U.S. auto industry has a high skill level and works with large amounts of efficient capital equipment. However, this does not mean we can produce everything at a lower opportunity cost than foreigners. Low-wage countries are likely to have a comparative advantage in the production of relatively labor-intensive goods. So we should specialize in what we do best. Imports allow us to free labor and capital resources so we can export those products for which we are lower cost producers.

How do trade restrictions affect the average consumer? They raise the price of all goods, imports and domestic goods alike.

Let's look at what has happened to car prices since 1981, when the Japanese Voluntary Restraint Agreement (VRA) took hold. The average retail selling price for all new cars sold in the United States has risen by 18.8 percent more than the consumer price index. Consumers thus have had to pay $1741 more than if car prices had merely kept pace with the consumer price index.[1] The VRA is a major reason Toyota dealers, for exaple, are able to charge a premium of $2,000 to $4,000 above list price.[2] The Japanese also allegedly have funneled more luxury imports into the United States to compensate for the VRA.[3] The proposed legislation will have the same effect as a quota. We can expect higher prices for cars as a result.

Trade restrictions do more than raise prices substantially. While they may be designed to save jobs they may actually decrease total employment. Foreigners unable to sell to us have fewer dollars. They are forced to cut back their purchases from us, causing jobs to contract in our export industries, from farming and fish packing to computer chip production. These contractions, in turn, cause disarray in our economic policies for other industries—farming is a prime example.

Trade restrictions also promote inefficiency. Our auto workers have the potential, when using the most modern plants and production methods, of being as productive as any. While the Japanese auto makers currently produce autos with about half the hours of labor input,[4] the protection from competition afforded by this bill will make it less likely that our auto industry will match the Japanese in efficiency. Thus, even if this bill saves some jobs in the short run, it will likely prove a long run handicap to our domestic auto industry.

Further, it would be bitterly ironic indeed if the legislation here today, intended to help auto manufacturing, ended up destroying jobs in essential exporting industries like aviation, agriculture, and high-tech areas such as computers—areas we now regard as the means to continued U.S. prosperity.

## THE EFFECTS OF THE PROPOSED LEGISLATION

### *A big bite out of the national wallet*

The direct effect of S. 707 would be to increase substantially the automobile prices paid by consumers. This is a matter of great concern. The purchase of a car is one of the most important purchases made by consumers. We are not talking here about a trivial rise in the price of an inexpensive good like a toaster.

Foreign manufacturers that could not meet the domestic content requirements would either withdraw from distribution or limit their imports. What would this cost the consumer? Based on a 1982 Congressional Budget Office (CBO) analysis, we estimate consumers will purchase fewer cars at higher prices resulting in a welfare loss to consumers in 1990 of $4.9 billion. More than $3.8 billion will go directly to the pockets of domestic car producers, who will receive higher prices for their vehicles. About $1.1 billion will be lost to the economy completely; most of this loss ($867 million) will go to foreign producers because their prices will go up, too.[5]

Let's put these losses to the consumer in perspective. Assume, as does the CBO, that about 100,000 jobs are gained because of this legislation. This is a rosy projection that assumes no trade retaliation. A simple calculation shows that consumers will pay about *$49,000 a year for each job saved!* That isn't counting the salary the worker will receive.

Is an excess consumer cost of $49,000 per job saved a large amount? Compare this to the earnings of the workers who are supposed to be aided by this legislation. Paying these workers their annual wage for as long as it takes to locate jobs in other industries would impose fewer costs on consumers.

Surely unemployment insurance combined with retraining assistance is a better way to deal with the problem of the unemployed auto worker. Retraining is an investment in the future of the U.S., for it would put the currently unemployed workers into industries where we have a comparative advantage over other countries.

### *Reduced incentives and other effects on U.S. manufacturers*

The American consumer's taste in cars has changed in the last decade. Foreign car makers were the first in line with cars that met these new tastes. This foreign competition had several effects. Some people focus on the negative side—for example, there was a loss in U.S. auto worker employment. But there were important positive changes. The competition from imported cars provided the necessary impetus to persuade American producers to build better, more appealing cars. American car makers showed they can compete. They now produce a variety of well designed and well built small cars that American consumers find attractive.

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[1] *See* Michael Pertschuk, GM-Toyota Joint Venture, FTC File No. 821-0159 (dissenting statement of December 22, 1983).

[2] *See* Michael Pertschuk, GM-Toyota Joint Venture, FTC File No. 821-0159 (dissenting statement concerning final acceptance of consent agreement, April 11, 1984).

[3] *See* Peter Behr, "When the Taxpayers Saved Lee Iacocca's Bacon, What Did They Get Out Of It?", Washington Post (May 13, 1984) p. Cl.

[4] W.J. Abernathy, J.E. Harbour, J.M. Henn, "Productivity and Comparative Cost Advantage: Some Estimates for Major Auto Producers," Harvard Business School Working Paper (February 13, 1981).

[5] *See* Appendix A. All dollar figures are expressed in 1982 dollars.

This foreign presence increased consumer welfare by providing the stimulus for U.S. manufactures to design and manufacture economical cars. If legislation such as S. 707 had been in effect 10 years ago, it is less likely that consumers would have been able to buy the cars that Detroit is now producing. Does anyone seriously believe this would have been a good thing for the nation as a whole? If S. 707 is enacted, domestic producers will be insulated from consumer wants and needs.

Foreign competition in the supply of component parts has actually helped the domestic car producers adjust to the demand for smaller cars. Confronted with the enormous cost of downsizing American cars to make them competitive here and abroad, U.S. auto makers have relied on foreign sources for major components. Domestic companies have used imported parts extensively to allow them to introduce new models. When Chrysler introduced its Dodge Omni/Plymouth Horizon in 1978, it bought engines and standard transmissions from Volkswagen. Chrysler would probably not have been able to introduce these new cars when it did if it had not been able to buy foreign parts. Similarly, Chrysler probably could not have produced its K-cars in large quantities if it did not obtain foreign-made engines.

This legislation will increase costs for auto makers. Cost minimization requires the ability to produce a part in one or a few locations—be it here or abroad—and use that part in vehicles sold all over the world in order to achieve scale economies.

Finally, do not overlook the costs to administer the legislation. Paperwork will be necessary to document the domestic content.

*The dangers of retaliation*

Legislation such as this cannot be viewed in isolation. That would be naive. My testimony was introduced by a discussion of general international economic trade principles. It was not meant to be an esoteric, professorial lecture. It is the real world. The real world is comparative production advantages and lost exports. The real world also has the possibility of trade retaliation.

Trade retaliation could have severe consequences. The CBO estimates that with retaliation, employment in non-auto-related industries would fall by 173,000 persons. Since the projected gain in the auto and related industries is only about 100,000 jobs, there is a large net loss of jobs.

I ask you to examine the list of manufacturing industries that are the principal exporters to Japan,[6] for they could be the prime candidates for any retaliatory measures. These industries include logging, electronics, meat packing, petroleum refining, chemicals, packaged fish, aircraft equipment and lumber milling.

Even if there is no retaliation, a reduction in U.S. imports will hurt these export industries. Foreign countries with less dollar power will not be able to buy as many American goods. And, do not overlook the fact that people who work in jobs that serve car importers—such as dockworkers—will also bear the brunt of this subsidy to the domestic car industry.

We also appreciate that the intent of the legislation is to make the imposition of restrictions gradual so that dislocation for manufacturers is minimized. But if the greatest impact of this legislation is some years down the road, how does that help the worker that is unemployed now? While the employment benefits to the auto industry, if they are in fact achieved, would be felt only over time, the inflationary impact of this legislation would be almost immediate. The American economy is now enjoying a relatively low rate of inflation that has been achieved at significant cost. Special interest legislation such as this would endanger continued price stablility.

Given the increasingly healthy position of the U.S. auto industry—brought about in part by its increasing competitiveness—this question arises: is the tourniquet to be applied just another example of the difficulty the legislative process has in "solving" cyclical economic problems? We are all aware of examples where legislative action occurred after the horse was out of the barn—and in some instances, perhaps, on the way back into the barn.

*What is a fair solution?*

Some have argued that fairness dictates the passage of this legislation. We are very sensitive to the plight of the unemployed auto workers. The industry has been buffeted by the past recession and from strong competition abroad. Also, the increasing scarcity of petroleum products and the need to keep our environment healthy has made the technological job of the industry harder.

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[6] *See* Appendix C.

Yet fairness cannot be measured in isolation. Fairness must take into consideration the present profitability of the industry. That includes the high compensation in the industry for workers and executives alike.

In the United States, for example, auto workers are paid on average about 160 percent of the salaries earned by workers in other U.S. manufacturing industries. Japanese and German auto workers enjoy only about a 125 percent advantage.[7] If there is trade retaliation by the Japanese and it is directed against the U.S. manufacturing industries that export to Japan, the workers in those industries—workers who earn only about 74 percent of what auto workers earn—will be hurt.[8]

U.S. auto executives' salaries must be scrutinized in this fairness inquiry, too. Recent reports show that these executives have received substantial bonuses. *Business Week* recently reported on the top U.S. executive pay earners.[9] The magazine stated that three Ford executives were among the top 25 highest paid executives. It also reported the percentage change in compensation between 1982 and 1983 for the heads of 36 industries. We noticed that GM's and Ford's four top executives received compensation increases of between 171 and 214 percent. This percentage increase was exceeded by only one other executive, and most increases were far outshadowed by these figures.

Fairness is a complex issue that is not for us to judge. However, we respectfully suggest that the relief sought in this legislation for the U.S. auto industry will come at a very high price to be borne by all American workers and consumers who are equally deserving of your consideration.

## CONCLUSION

In conclusion, proposals to impose domestic content requirements are an ill-conceived way to alleviate the suffering of the thousands of workers in the industry that are currently unemployed. While some jobs may eventually be created in the auto industry that would be accomplished at the cost of losing U.S. jobs in other industries. It would also come at high cost to the consumer. There must be a better way.

I would be happy to answer your questions.

### *APPENDIX A.—Welfare Analysis Based on CBO Estimates of the Effects of Enacting Domestic Content Legislation, 1990 (1982 dollars)*

| | *Vehicles* |
|---|---|
| Without domestic content: | |
| Imports | 3,750,000 |
| Domestic production | 11,250,000 |
| Total | 15,000,000 |
| With domestic content legislation: Price is assumed to rise by $333/vehicle. | |
| Quantities are as follows: | |
| Imports | 2,603,000 |
| Domestic production | 11,873,000 |
| Total | 14,676,000 |

Welfare effects can be analyzed using the diagram below, which is the standard international trade welfare analysis for a homogenous product:

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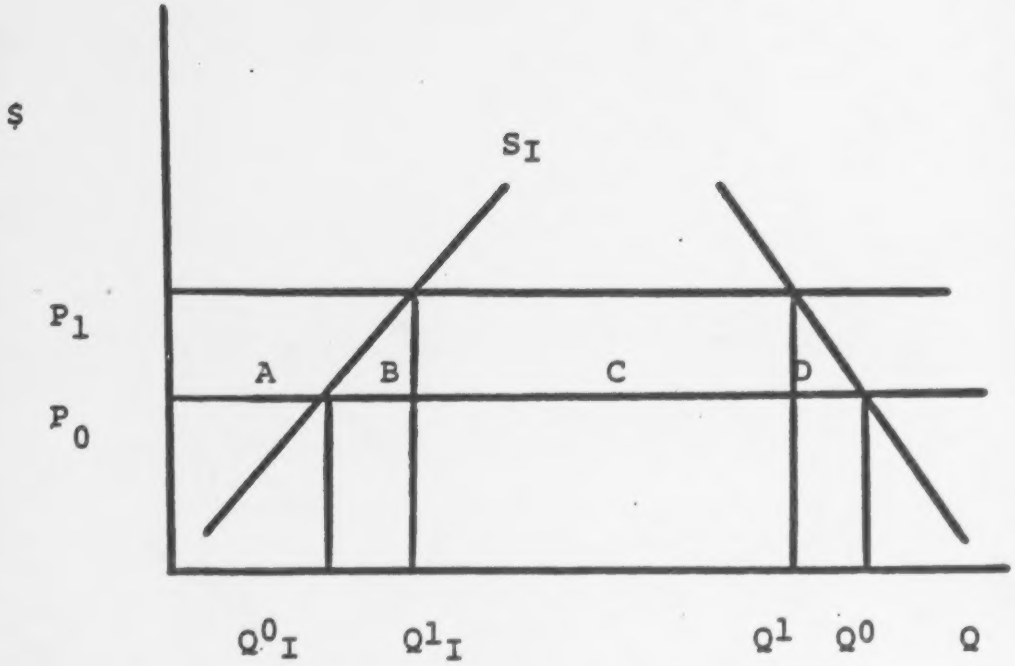
[7] *See* Appendix B for more complete data.

[8] *See* Appendix C.

[9] "Executive Pay: The Top Earners," Business Week (May 7, 1984), p. 88.



Area A is increased domestic producer surplus:
$=(P_1-P_0)\,Q^0_I+\frac{1}{2}(P_1-P_0)\,(Q^1_I-Q^0_I)$
=\$3,858.3 million

Area B is production inefficiency losses:
$=\frac{1}{2}(P_1-P_0)\,(Q^1_I-Q^0_I)$
=\$103.7 million

Area C is increased payments to foreigners for imported vehicles:
$=(P_1-P_0)\,(Q^1-Q^1_I)$
=\$866.8 million

Area D is consumption inefficiency loss:
$=\frac{1}{2}(Q^0-Q^1)\,(P_1-P_0)$
=\$87.3 million

Total consumer cost=\$4,916.1 million
Cost to the economy=1,057.8 million

## APPENDIX B.—RATIO OF MOTOR VEHICLE HOURLY LABOR COMPENSATION TO ALL MANUFACTURING HOURLY LABOR COMPENSATION

[Source: Bureau of Labor Statistics]

| | United States | Japan | Germany | Percent by which United States exceeds Japan |
|---|---|---|---|---|
| 1960 | 130 | 131 | N/A | −0.8 |
| 1965 | 135 | 115 | N/A | 14.8 |
| 1970 | 135 | 115 | N/A | 14.8 |
| 1975 | 149 | 117 | 124 | 21.5 |
| 1980 | 165 | 123 | 126 | 25.5 |
| 1982 | 160 | 126 | 127 | 21.3 |
| 1983 (preliminary) | 155 | 127 | 128 | 18.1 |

Note.—Figures will be supplied.

## APPENDIX C.—PRINCIPAL U.S. MANUFACTURED GOOD EXPORTS TO JAPAN AND WAGES IN THOSE INDUSTRIES RELATIVE TO THOSE IN THE AUTOMOTIVE PRODUCTS INDUSTRY

[Percent]

| Standard industrial classification 4-digit industry | Col. 1—Percent of all U.S. manufactured good exports to Japan 1982 | Col. 2—Relative labor costs [1] |
|---|---|---|
| Logging | 6.6 | 5.02 |
| Electronic computing equipment | 6.1 | 75.7 |
| Meat packing | 5.4 | 64.3 |
| Petroleum refining | 5.1 | 104.4 |
| Industrial inorganic chemicals, not elsewhere classified | 5.0 | 86.1 |
| Industrial organic chemical, not elsewhere classified | 4.2 | 94.6 |
| Packaged fish | 3.8 | 36.5 |
| Aircraft equipment, not elsewhere classified | 3.7 | 81.4 |
| Aircraft | 3.3 | 95.7 |
| Sawmills and planing mills | 3.2 | 50.2 |
| Average relative labor costs [2] | | 73.6 |

[1] Hourly labor compensation rates for this industry divided by hourly labor compensation rates for the automotive products industry (SIC 3711), 1981.

[2] Weighted average with column 1 figure as weights.

Sources: Col. 1, Office of the U.S. Trade Representatives; Col. 2, Bureau of Labor Statistics.

## Separate Statement of Michael Pertschuk, Commissioner, Federal Trade Commission

I join Commissioner Douglas and the rest of the Commission in opposing the "domestic content" requirements of S. 707. However, the Commission's testimony reflects what I believe is a central shortcoming in the debate over government policies toward the automobile industry—the tendency to view the disagreement solely in terms of protectionism versus free trade. The stark alternatives of creating enormous barriers to entry and driving up prices to consumers or government remaining totally on the sidelines are not our only choices.

Some forms of temporary protection from foreign imports may be warranted if they are coupled with a *quid pro quo*—commitments by the industry to modernize and to limit the exporting of jobs, and commitments by labor to improve productivity and abandon inefficient work rules.[1] Only government can be the broker for such negotiations and the ultimate arbiter of the long-term public interest and the equities of sacrifice and benefits.

Rather than directly deal with the need for a coordinated policy toward the industry, the historical tendency has been to honor "free trade" in the abstract and, in practice, to implement protectionist policies in times of severe domestic hardship. The harsh barriers to imports contemplated in S. 707 are a poor answer to the problems of the auto industry, one with too heavy a price for consumers. But naively praising free trade and the insights of David Ricardo cannot serve as responsible national policy either.

### BEFORE THE DEMOCRACY PROJECT'S ECONOMICS 1984 CONFERENCE: "DEAR MR. PRESIDENT ELECT * * *"

*When it is not more blessed to give than to receive*

Mr. President, ten minutes is a little lean to spell out for you a comprehensive industrial and consumer policy. So let's take a microcosm.

Take General Motors.

Its great good fortune at the hands of the Reagan administration can serve as a paradigm for your predecessor's industrial policy: whatever GM—like Lola—wants, GM—like Lola—gets.

GM wanted regulatory relief.

(1) It got the automatic safety restraint standard squashed.

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[1] A recent speech which elaborates upon this point is attached for information.

(2) Denting the 5 mph bumper standard, GM regained the freedom to manufacture bumpers so dainty as to generate damages in 5 mph crashes of up to $381.

(3) Under Ann Gorsuch/Burford, Reagan's EPA diffidently declined to order the recall of GM cars in violation of air pollution standards, and obligingly prayed Congress to relax future standards.

(4) To ease GM's understandable fears of accountability for hazardously defective cars, the Reagan administration—an apostle of states' rights under the "new federalism"—nonetheless sought legislation to make it harder for injury victims to recover damages from manufacturers under state law.

(5) It got White House blessing for relaxation of penalties for failure to meet fuel efficiency standards and EPA silence at the rebirth of the high-profit gas guzzlers.

(6) Reagan's National Highway Traffic Safety Administration (NHTSA) gave GM an 18 month free ride on its defective X-body brake systems until finally prodded by public outrage into recall action.

(7) Reagan's Federal Trade Commission abandoned its GM transmission-defect case to obtain reimbursement for the hundreds of thousands of GM consumers forced to pay an average of $600 for defect repairs. In its place, the Commission negotiated a "heads you get compensated; tails, you don't arbitration plan with GM.

(8) GM, of course, shared in the overall bonanza of Reagan corporate tax relief.

(9) Now, believe it or not, General Motors is back before a predictably obliging FTC pleading for relief from a Nixon-era order prohibiting GM from inadequately substantiating its advertising claims for the mechanical wonders of GM cars.

(10) The grand prize, of course, was the "quota system," which GM didn't even have to ask for. With it came freedom from new Japanese competition, a gift which allowed Toyota and Nissan, with their sizable quotas, to join the domestic oligopoly free from either the lure or the threat of price-cutting competition from new Japanese imports.

(11) The Reagan FTC kindly iced the cake by approving the GM/Toyota joint venture. GM, of course, could have achieved access to Japanese know-how and the joys of joint venture by proceeding with its original plans to join with Isuzu, but GM preferred Toyota—though by any antitrust measure these new giants were impermissible bedmates.

In a blink of the FTC's eyes, General Motors had traded in its 1982 "Beat Toyota" slogan for its 1984 model "join Toyota" scheme. General Motors thereby acquired comparatively cost-free access to a Japanese-designed small Chevy, 60% of which was to be manufactured at low cost in Japan; and, as a bonus, a spendid opportunity arose to rig prices as high as possible with its former rival.

(12) Finally, though GM may not have been entirely grateful for the Reagan administration's terifying '81 and '82 recession, it at least had the beneficent side effect of driving the UAW to the giveback table.

What did we pay for these beneficences? At least a $1500 quota premium for each new car sold in the United States. We paid $6 billion more for new cars in 1983 than we would have without the quotas. The total gift package to GM from the Reagan administration is quite breathtaking: $3.7 billion in profit last year, for which Chairman Roger B. Smith was rewarded with $1.5 million in cash and stock.

What did we get for this price? A predicted phase-out of domestic production of small cars. GM is retooling to produce more big cars with less workers while developing offshore production of new generations of small cars. The UAW, a queasy partner of GM in the Toyota venture, has been its GM employment shrink from 466,000 in 1978 to 378,000 now.

Since GM chose to use its quota cushion to *raise* prices, not to sell more cars by—God forbid—*lowering* its prices, fewer GM workers were needed to produce rewer cars. As Hobart Rowan notes, "the UAW surely must now be aware that its 1981 strategy has backfired: that quota legislation they had fought for has enabled the companies to make big money building fewer cars while employing fewer real, live workers."

Thousands of Americans will die in fatal crashes unprotected by automatic safety restraints in new GM's and other new cars.

Far more new GM gas guzzlers are on the road instead of the smaller fuel efficient cars.

The FTC hasn't brought a new defect reimbursement case in three years against GM or anybody.

And, oh yes, the UAW has an unenforceable promise: from the leadership of GM that they truly intend to build the Saturn; a revolutionary U.S. built small car. But it isn't an enforceable promise and the only tangible evidence of its eventuality was the mock-up unveiled by GM at the strategic moment when the FTC was posed to grant GM and Toyota antitrust emancipation for the joint venture.

Now Mr. President, we come to the industrial policy and consumer protection lessons which you might learn from all of this:

First, Mr. President, you might start by appointing women and men who believe in the laws they've taken an oath to enforce. Then make sure that they enforce them—air pollution, energy conservation, product safety, lemon defect redress, antitrust, truthful advertising.

Second, Mr. President, stop pretending this country has no industrial policy, but repeat to yourself from time-to-time this maxim: "In a sane industrial policy, it's not blessed for your administration to give without receiving."

So if GM or its counterparts come to you pleading for new or extended gimmes, say to them: You want quotas? Antritrust exemptions? Regulatory relief?—First prove the public need in a public forum (not to a star Chamber OMB).

Then if you are convinced, Mr. President, and you are poised to grant relief, first make them sign on the dotted line: "I, GM, hereby promise in writing to invest my industrial policy dividend in competitive plant and equipment and to commit GM to the largest job retention strategy compatible with competition, including an aggressively competitive pricing structure. We will, so help us, produce and market the Saturn or an equivalent domestic small car; and, oh yes, we'll skip the executive bonuses until we've given up these government crutches.

Finally, Mr. President, call it anything but "industrial policy" and maybe even the *Wall Street Journal* won't notice.

The CHAIRMAN. Thank you.

Senator Danforth.

Senator DANFORTH. Gentlemen, I have just one question, which will give each of you an opportunity to elaborate on something that has been touched on in your testimony in chief. My question is, If we were to enact domestic content legislation, who in our country would be hurt by the legislation?

What would be the cost of the legislation to the American people? And I think there are two subparts to that: First, what would be the cost to the people who want to buy automobiles? How much would it cost them in dollars if we were to pass the domestic content legislation?

Second, there is the issue of retaliation or emulation by other countries. It has been suggested this morning that that is really no problem at all. We are told everybody does it: the Europeans do it, the Japanese do it. The Japanese could not afford to retaliate; they are too dependent upon us. Let us do what other countries do.

So there has been a suggestion at least today that we can ignore the retaliation point or the emulation-imitation point. On the other hand, there are people who say this would be a disaster for certain sectors of our economy. It would be a disaster for American agriculture. Farmers would be hurt in the pocketbook by the domestic content legislation. People in the aerospace industry and the chemical industry, and so forth, who are doing good business abroad, would be hurt in the pocketbook. People's jobs would be at risk if we were to enact domestic content legislation.

So focusing on the question of cost to the consumer and the effect, if any, on people and industries who do compete in world markets, I would like each of you to respond to the question of who would be hurt in the United States if we were to pass this bill.

Mr. JONES. Senator, we have various estimates. The Congressional Budget Office estimates about $500 per car. An interagency group within the administration estimates about $450 per car.

We estimate that the incremental 200,000 units of sales of domestic automobiles would lead to about 30,000 automobile jobs domestically, and from that should be deducted those jobs which would be lost in the importation of automobiles, those jobs in transportation, finance, and services, and the possibility of the closure of U.S. operations by foreign manufacturers.

Somewhere between 30,000 employees on the high side and 6,500 employees on the low side would be the calculation.

Senator DANFORTH. That would be the direct loss?

Mr. JONES. In other related industries serving in that category. Now, if you had a spread, then, into other categories, the Congressional Budget Office has estimated on a broader scale that this would lose about 60,000 jobs overall, because of the retaliation throughout the world trading system that they would expect to occur.

Senator DANFORTH. In your judgment, would there be retaliation?

Mr. JONES. Yes.

Senator DANFORTH. Would there be imitation?

Mr. JONES. Yes.

Senator DANFORTH. We have been assured to the contrary by other witnesses today. You simply disagree with those witnesses?

Mr. JONES. Economics is a very fuzzy subject, and you will get the answer you want if you ask the question long enough. My viewpoint is it would be a very serious loss to the world trading system, of which we are the premier leader.

That would then entail, as the largest exporter, a serious feedback loss, which leads to the 60,000 job estimate of the CBO. The retaliation referred to by earlier speakers seemed to refer to would the Japanese automobile companies curtail their sales there. The answer to that is probably no.

What would be curtailed is worlwide trade, of which we are the major participant, and the sales of our exports into other markets. Europe is waiting to see what we do on this issue. We have mentioned only Japan today. This is a multilateral trading institution, a world trade system.

Senator DANFORTH. Would the other witnesses respond, please.

Mr. DOUGLAS. Yes. In my prepared testimony we did relate to the overall cost to the consumers of $4.9 billion annually. We have not made an independent analysis of the cost per automobile. We have relied upon the Congressional Budget Office. And I really have nothing to add to the probability of retaliation that was just mentioned.

Mr. HASELTINE. A comparatively small amount of increased cost to the automobile would occur just from the recordkeeping cost alone in the Department and what it would cost industry to comply with the necessary recordkeeping functions. We are estimating it will cost the Government about $25 million.

Senator DANFORTH. I am not talking about the Government. I am talking about the people.

Mr. HASELTINE. The Government cost is $25 million; another $50 to $100 million to the industry. When you translate that into cost per vehicle, because that is how it will ultimately be borne, that is a $7.50 to $12.50 a vehicle right there.

Senator DANFORTH. You say only $12.50 a vehicle?

Mr. HASELTINE. For the cost of industry and the U.S. Government keeping track of what is happening. That is a very minute portion of the total change in vehicle cost we are talking about.

But just for the U.S. Government to keep track of this complicated system, everybody who goes out and buys a car will have to spend or pay taxes for another $12.50 for industry and the U.S. Government to perform their recordkeeping functions, not to mention the several hundred other dollars in higher sticker prices that have been discussed by the several witnesses earlier this morning.

In terms of who else would be hurt, I mentioned our estimate of 4,500 direct jobs lost by dock workers. That does not include indirect or induced job losses by related industries to dock workers. Those are based upon 1 million fewer imports per year.

If you added indirect and induced job losses through reduced imports of a million a year coming through U.S. ports, you are talking somewhere in the neighborhood of 36,000 jobs per year. So that is the 36,000 additional people who would be hurt.

Senator DANFORTH. And you are not talking about the retaliation factor?

Mr. HASELTINE. I am only talking about reduced imports of a million vehicles per year. If we assume that this legislation passes, and as a net result we have 1 million fewer imports per year, whatever gains are made in the domestic auto workers jobs, about 36,000 of those gains will be offset by losses in ports, through dock workers and related industries, including all of the economic benefits which result from that number of vehicles currently being imported.

The CHAIRMAN. Mr. Haseltine, let me ask you, how did you arrive at your estimate of maritime job losses? As you may have heard me say earlier, there are a great number of dock workers and teamsters involved in the import of automobiles in my home State of Oregon and I am curious about your method.

Mr. HASELTINE. Yes, Mr. Chairman. This was originally based on a study that was done in the port of Portland, as a matter of fact, in 1976. The study was redone or looked at again in 1982 to reassess its validity. It was based upon the number of vehicles, the number of dock workers.

The CHAIRMAN. You do not need to tell me any more if that is what the study was, because when I first saw the port of Portland study I thought it was extremely high. I did not want to disagree with my own port, but that study was then done by the Department of Transportation at my request to see whether or not their figures were accurate, and indeed your study concluded their figures were accurate and their methodology was accurate.

Mr. HASELTINE. That is absolutely correct.

The CHAIRMAN. OK. Commissioner Douglas, in Appendix B, of your written statement the ratio of motor vehicle hourly labor compensation to all manufacturing hourly labor compensation is calculated from figures published by the Bureau of Labor Statistics. Are you concluding that the auto industry wages are simply too high and that is the problem with competition from overseas?

Mr. DOUGLAS. That certainly appears to be part of the problem, Mr. Chairman. The auto industry workers generally throughout the world enjoy a premium for compensation over that of all manufacturing. However, in our principal trading partners, such as Japan and Germany, the premium is much smaller.

The premium in Japan seems to range from a 15-percent premium to a 30-percent premium, and in Germany between 24 and 28 percent. Back in 1960, the premium enjoyed by the American auto industry was more or less on a par with that enjoyed by the manufacturers in our other trading countries.

The CHAIRMAN. Let me read the figures so that everyone understands what I am asking. According to the Bureau of Labor Statistics chart, in 1960 the U.S. auto worker was 130 percent above the average, in Japan 131 percent. Germany's figures are not available.

When you go on through 1965, if the U.S. are accurate, the U.S. percentage has gone to 135, Japan's to 115, and figures for Germany are still not available. But when you get down to 1975, 1980, 1982, 1983, you have got the U.S. auto worker at 165, 160, 155 above the average; Japan at 123, 126, 127; Germany at 126, 127, 128.

The question is this: It appears that in terms of comparability Germany and Japan are not that far off vis-a-vis their auto workers to their hourly wage. Why is it that our principal problem with imports seems to be only Japan? If it were just the European Common Market countries we were competing with, their imports do not seem to have made an overwhelming dent in this country.

Mr. DOUGLAS. Obviously, the compensation is only part of the labor cost story, Senator. The other part of the labor cost story is productivity, and what we have observed is not only have Japan auto worker wages remained relatively constant with regard to their overall manufacturing, but their rate of productivity has increased sharply. This has not been the case, however, in Germany.

So that the competitive pressure we feel from Japan is substantially higher than that we feel from Germany, because of a difference in productivity. Japan is the leader in the efficient use of labor.

The CHAIRMAN. Let me ask you this. Senator Riegle said earlier that no country is any more productive or any better than we are. I notice that Mr. Caldwell has said that and repeated that statement many times.

There is no reason that we cannot be as competitive with respect to productivity as the Japanese. Our labor is just as good, just as intelligent, and just as educated. Also, we have much greater access to capital than the Japanese do.

Mr. DOUGLAS. That is certainly the case. We looked at this very closely. As you know, the Federal Trade Commission studied for approximately a year a proposed joint venture between General Motors and Toyota. So we studied very carefully the productivity issue.

And what we discovered was that in fact the direct labor involved in producing an automobile in Japan is substantially below that in the United States. That still remains to be the case. This is one of the proposed benefits of the joint venture, to try to transfer that technology and that productivity to our shores.

But you will no doubt talk to labor representatives later, but it is my understanding that in a typical General Motors plant there may be something like 55 job classifications, whereas in the joint venture plant they propose to operate it with five job classifications. So there are many, many things that go to affect the productivity of U.S. workers. It is not simply having robots and a modern efficient plant.

The **CHAIRMAN**. Don.

Senator **RIEGLE**. I think the chairman's line of questioning there is very important and I hope we will have a chance to dig deeper into those differentials, because I think he has hit upon a very important contradiction in terms of why it is that Japan has somehow managed to come in and get 21 percent of this market while the other foreign manufacturers have not managed to do so.

It obviously leads us, if we are going to do the detective work properly, in the direction of the differential in the currency between the yen and the dollar, and the manipulation there and a whole host of other gimmicks and devices. And I hope that we will track them all down.

Let me just ask you, Mr. Douglas, you make the point that you feel there would be retaliation. Has Japan retaliated against Great Britain and Germany?

Mr. **DOUGLAS**. I am not familiar with that, sir.

Senator **RIEGLE**. I think if they had you would be familiar. At least I would expect you to be familiar.

Do you have any notion of Japan having retaliated against any other nation in the world, either because they have established domestic content or quotas?

Mr. **DOUGLAS**. I have not followed that.

Senator **RIEGLE**. I beg your pardon?

Mr. **DOUGLAS**. I have not followed that.

Senator **RIEGLE**. So you know of none. I mean, you are not able to report any today.

Mr. **DOUGLAS**. I do not hold myself as an expert of the history of Japan's trade practices.

Senator **RIEGLE**. That is frankly not a very satisfactory answer.

Are you aware of any GATT filings by Japan against any of those nations?

Mr. **DOUGLAS**. No, sir.

Senator **RIEGLE**. Would you normally be aware had they taken place?

Mr. **DOUGLAS**. No. At the Federal Trade Commission that is not our primary responsibility. That would be the International Trade Commission.

Senator **RIEGLE**. Do you not think you might have heard it today if that had been the case? There have been no GATT filings. Let me just tell you if you are not familiar with that.

Mr. **DOUGLAS**. I will take your representation of that.

Senator **RIEGLE**. We will ask others as well. But it seems to me that if you are going to make the assertion that there will be retaliation, you must base that on something. And when you confess a lack of knowledge as to whether there has been any retaliation against the other nations that have either put in place domestic content laws or quotas, you are not aware of any GATT filings, it is hard for me to understand what you based your belief or your certainty about retaliation on if it has not happened somewhere else.

**Mr. Douglas.** I think there is a substantial difference, Senator. The United States is a much stronger international trading force in the world than is Germany or——

**Senator Riegle.** So the theory is that Japan would be much more apt to take on a bigger, stronger nation than a weaker one, is that the theory?

**Mr. Douglas.** No, sir. I think the consequences of this Nation would be so large to Japan and other trading nations as well that it would cause much more than the ripple which would be caused by Great Britain undertaking the same steps.

**Senator Riegle.** Let me be as polite as I can be about it. I think you have no basis to make the assertion that there will be retaliation, and I would put on my side of the argument the fact that every other nation, including Japan, has taken steps like these and there has been no retaliation, none that you can cite, none that you are aware of here.

So I think that blows that argument out of the water. But I only say that because I do not think you should bring arguments in here that you do not have evidence to sustain, particularly when there is a body of factual information on precisely this problem that exists in the world.

Now, Mr. Jones, let me ask you this question. Does it hurt America to have a net merchandise trade balance deficit that is running now at an annual rate of $120 billion?

**Mr. Jones.** Yes.

**Senator Riegle.** How does it hurt us?

**Mr. Jones.** It will increase the current account deficit, which has historically been a surplus, resulting in the importation of capital, which will create an obligation for future payment.

**Senator Riegle.** And how does it hurt us internally in our economy when we run a $120 billion net merchandise trade deficit? What does it do internally in the economy of the United States? Are there any negative effects of that?

**Mr. Jones.** It would have a benefit by placing pressure on domestic suppliers to curtail prices. Therefore, you would have a lower inflation rate. It would reduce the domestic inflation rate. It would probably curtail domestic interest rates through the importation of capital and the partial financing of our large Federal Government deficit.

**Senator Riegle.** Are there any negatives?

**Mr. Jones.** Yes. I am coming to those.

**Senator Riegle.** That is what I had asked for, the negatives.

**Mr. Jones.** Well, as an economist I try to give even answers.

**Senator Riegle.** I would like you to respond to my answer.

**Senator Long.** So far the witness has said a $120 billion trade deficit is a great thing.

**Senator Riegle.** Terrific.

**Senator Long.** Would you mind telling us if you can find something wrong about it?

**Mr. Jones.** I started by saying it was a problem and it would create a current account deficit, which is the major problem. It is potentially—if you reduced exports, you would potentially have a reduction of workers. But from that you have to offset the jobs you create through the imports. So it is not entirely clear.

Senator RIEGLE. Well, let me be as polite as I can be.

Mr. JONES. It is not the 25,000 jobs per billion.

Senator RIEGLE. I think you are being evasive and I want to help you not be evasive.

Now, if a merchandise trade deficit of $120 billion, which is what we are running at the present time——

Mr. JONES. Right.

Senator RIEGLE [continuing]. If that does not hurt this country, I want to document it, because that presumably means if it were $200 billion or $500 billion there is really no material consequence. And I know that that is wrong and I think that you know that is wrong, and I just want you to be honest in your answer.

So let me ask you some specifics. Does it cost us jobs on balance if the net deficit in the merchandise trade account is running at $120 billion? Does that cost a net loss of jobs in your opinion?

Mr. JONES. My expectation is it would cost a net loss of jobs.

Senator RIEGLE. Any idea how many?

Mr. JONES. No, because of the difficulty of calculating the imports——

Senator RIEGLE. Would that not be an important thing to try to determine?

Mr. JONES. We have many times, but we cannot come up with an answer.

Senator RIEGLE. How close can you get to an answer?

Mr. JONES. Allegedly, you lose about 25,000 jobs for each billion dollars of exports lost but we cannot confirm that because of the import loss.

Senator RIEGLE. Let us take that; 25,000 jobs per billion times $120 billion is a lot of jobs.

Mr. JONES. Yes.

Senator RIEGLE. How about the effect on the deficit? If we lose those jobs and those people are not earning incomes and paying taxes, what is the effect on the Federal deficit? Government revenues go down. What would be the increase in the Federal deficit that would work its way over there from a $120 billion annual merchandise trade deficit.

Mr. JONES. I do not have that figure off the top of my head. It would be——

Senator RIEGLE. That astonishes me, by the way. It seems to me that that should be the first number that you should get and bring in here with you, especially given the crisis in the Federal deficit that we are all so profoundly aware of.

I mean, I think you have an obligation not only to determine that number, but to have that almost be one of the first things you present to us. And you are telling me that you do not have it, you have not calculated it. Does the administration know what the impact is on the deficit?

Mr. JONES. It has calculated the estimated loss of jobs. It has calculated the creation of jobs on imports. The net situation in the automobile industry ranges from 6,500 to 30,000, somewhere around that.

Senator RIEGLE. I am taking the whole economy, Mr. Jones. I want to persist 1 minute. I do not think I am taking more time on this question, I think, than Senator Danforth did in his questions to the panel. I want a straight answer.

If we use the relationship that economists use of 25,000 jobs to $1 billion in terms of net merchandise trade deficit and multiply that out to the $120 billion, and now you use whatever again the standard factor would be of ultimate tax revenue coming in to the Government, generating off an additional 25,000 jobs, you ought to be able to make some kind of estimate right now on what the impact is on the deficit.

And I would like you to do that. I think you owe us that.

Mr. Jones. Right now or for the record?

Senator Riegle. No, right this minute.

Mr. Jones. OK.

[Pause.]

Mr. Jones. About $12 billion.

Senator Riegle. $12 billion. That then is added to the Federal deficit.

Mr. Jones. That is on the export side. Now I would have to deduct from the import side, which would reduce it to a considerably smaller figure.

Senator Riegle. No, we have already done that, because the $120 billion is the net—I am talking about just the merchandise trade deficit effect, because $125 billion is net, net of the exports.

Mr. Jones. Not on the employment side, sir.

Senator Riegle. Tell me what that $12 billion represents that you just calculated.

Mr. Jones. That would be a superficial estimate of the number of export jobs lost times their tax revenues. From that should be deducted the jobs created by imports, the jobs created by services, the jobs created by income flows. That is what I started out to try to explain.

Senator Riegle. Well, I hope Senator Long will pursue this, because we have got to pin it down.

Senator Long. If I might interject, why do you keep trying to throw sand in our eyes? Your own people put the lowest figure they can put on that deficit as a loss of 25,000 jobs for every $1 billion of net deficit on your imports. That was on your commodity trade.

The figure I have seen is the lowest any good economist would give you if you are losing 25,000 jobs for every $1 billion deficit. Now, you multiply that and it comes out with 3 million net loss of jobs. Now, that is when you put those imports in, as well as the guy who is unloading it off the ship and all of the rest of it.

That is your net loss of jobs, according to your economists.

Mr. Jones. Not only services, not only income flow, sir.

Senator Long. Are you saying that a net loss of jobs is not a net loss of jobs?

Mr. Jones. No, I am saying the net loss of jobs—that the figures you are citing refer to the export side, and from that should be deducted the other categories of the accounts. There are services, there are transportation Services, there are royalties, there are Government transfers, there are capital flows.

The balance of payment figure is a very broad one. The figure you are referring to has reference only to the export side.

Senator **Long**. Might I just say that I am not convinced of that. I would be delighted for you to show me the evidence you can show me that when we lose 2½ or 3 million jobs because we are importing a great deal more than we are exporting, that we are making a profit to offset that somewhere in your picture.

If we make a profit, if there is someone coming back in here and buying up our farms, our factories and our companies and bringing money back in in that fashion, that is not making any jobs for us that I can see.

Senator **Riegle**. Would the Senator yield on that point?

Senator **Long**. I am through.

Senator **Riegle**. If I may, then, on his time. I think it is very important for us to determine the best economic estimate of the impact on the Federal deficit this year of a $120 billion merchandise trade deficit. And my strong feeling is that we are looking at an increase in the Federal deficit, when we roll that through the economy, of several billions of dollars, whether it is the $12 billion figure that you cite—I know that is off the top of your head and I understand that you are doing it that way—or some other figure.

But that is also because you had not prepared the figure and did not bring it in here, so I do not think I am being unfair to you to ask you to do it here because you are the chief witness of the administration on this issue.

But if it is $12 billion or close to it, $10 billion, that is an enormous addition on the margin to the Federal deficit we are facing this year. And for the President and all of us to be concerned about the Federal deficits in the $200 billion range and not zero in on this problem, which we can correct and to which we are offering a solution today, is I think not being honest on the issue.

And I think you have to trace that relationship through. I think you have to be forthright about it. I do not think you can be evasive or plead lack of information.

Mr. **Jones**. I will submit that for the record. I am not known for evasiveness or dishonesty, sir, and I think that the answer you propose in domestic content is not the solution either to the $110 billion trade deficit or certainly not to the $200 billion Federal deficit.

[The following information was subsequently received for the record:]

The complicated links between different parts of the economy make it impossible to identify a simple relationship between exports, imports, and the overall level of economic activity.

First, over an extended period of time the pace of economic activity, as measured by the nominal gross national product, is determined by the real demand for goods and services and price increases which must be matched by changes in the money supply and velocity. The Federal Reserve System is responsible for controlling the changes in money and credit. Within the total nominal GNP, real output is the combined result of changes in the labor force, productivity, hours worked and the unemployment rate. Shifts between specific sectors may occur, such as personal consumption expenditures, gross private investment, government spending, and the net exports of goods and services, but the total output will remain the same despite the composition changes.

Second, there have been crude attempts to estimate the loss of jobs that might result from reduced exports. I personally doubt the validity of these estimates because of the complexity of the diverse interrelationship among the various sectors of the U.S. economy. Based on estimates of the average number of jobs related to a dollar of exports, each one billion dollars in gross manufactured exports is associated with 21,000 domestic jobs. Only in this sense can it be claimed that a one billion dollar reduction in manufactured exports will reduce domestic employment by

21,000 jobs. It is obvious, however, that the loss of gross exports represents only part of the trade equation since the inflows of imported goods create domestic jobs. The net trade deficit figure reported since 1975 is merely an accounting entry and the effects on domestic economic activity and employment are determined by the actual exports and imports, rather than the net accounting value referred to as the balance.

Third, the net effect on domestic employment resulting from changing levels of exports and imports must consider only the incremental changes during the time period analyzed rather than the total trade deficit as suggested during the hearings. For example, during 1983 U.S. merchandise trade exports declined from $211 billion to $200 billion. Using the simplistic assumption that each one billion dollars of lost manufactured exports creates a loss of 21,000 jobs, the gross impact would be approximately 230,000 jobs on the export side. During the same year, imports rose from $248 billion to $261 billion. The additional jobs created by the incremental imports should be counted as an offset to determine the net impact of foreign trade activities on domestic employment and economic activities during 1983.

Fourth, even if the simple calculations used to measure the employment impact of lost sales (properly adjusted to reflect the jobs created by imports) are accepted, it is incorrect to automatically assume that an overall loss of domestic employment has occurred. The fact that a worker no longer works in an export industry does not necessarily mean that the worker remains unemployed. During the last eighteen months an additional 6.8 million jobs have been created in the U.S. economy, and the civilian unemployment rate has declined from 10.7 percent to 7.1 percent, even though the level of U.S. exports is currently well below the $237 billion of foreign shipments reported in 1982. Once again, the total GNP has grown rapidly even though the contribution of a specific sector, such as the exports of goods and services, has been disappointing because of the sharp appreciation of the exchange rate for the U.S. dollar, the sluggish economic recovery patterns of most other industrial nations, the difficult problems faced by many LDCs in servicing their external debts causing them to curtail their imports, and some specific examples of unwanted trade protectionism. I believe that the proposed domestic content legislation would further exacerbate these international trade problems and would injure the interests of American consumers, the long-term health of the U.S. automobile industry, the prospects of other U.S. manufacturing, services, and agricultural activities dependent on trade, and prospects for continuation of the existing open and competitive international trade and investment system. As the world's premier economy, the United States would be the major loser if international trade relationships deteriorate.

Fifth, with regard to the U.S. Federal budget deficit, it is the result of long-term spending and tax decisions that have created a deficit in twenty-three of the last twenty-four fiscal years. To the extent that the Federal budget deficits have increased domestic interest rates and pushed the exchange rate of the U.S. dollar sharply higher since mid-1980, our exports have been restricted and imports increased by the competitive disadvantages created by the relative exchange rates that have developed. It is also likely that the high value of the dollar has helped to reduce domestic inflation rates by reducing the costs of imports and creating pricing competition for domestic suppliers and has augmented the domestic supplies of capital by attracting large capital inflows into the United States necessary to offset our large current account deficits.

Finally, the trade deficit may affect the Federal budget deficit if overall economic activity is actually reduced rather than simply experiencing changes in the composition of the GNP as rising domestic economic activity more than offsets deteriorating exports, as has occurred during the strong cyclical expansion in the United States that began in late 1982 following an extended period of stagflation that began near the end of 1978. If there is a net loss of jobs, after considering transfers of workers to other positions and the positive job effects of increased imports, then a crude calculation can be made using the conventional estimate that a 1 percent increase in unemployment leads to a $25 to $27 billion increase in the budget deficit ($20 billion of lost revenues and $5 to $7 billion more government spending). A 1 percent increase in the unemployment rate would represent approximately 1 million workers in the current U.S. labor force of 114 million. Therefore, the $11 billion decline in exports in 1983 would have lost about 230,000 jobs using the simplistic rule of thumb calculation of 21,000 jobs for each $1 billion of lost exports, or an impact of about one-fourth, or $6 to $7 billion, of the $25 to $27 billion figure suggested above. The $6 to $7 billion estimate unfortunately ignores the offsetting job-creating effects of import activities and improperly assumes that all of the erosion of trade occurs in the manufactured goods category which was used to calculate the rule of thumb guideline. Once again, it should be emphasized tha such calculations are extremely crude and are probably impossible to prepare in a complicated and dynamic economy.

The following is a copy of the Commerce report "Domestic Employment Generated by U.S. Exports." The report indicates that the number of jobs associated with one billion dollars of manufactured exports has declined from 30,000 in 1980, to 25,000 in 1982, and to 21,000 in 1983. The report clearly indicates that the job estimate is limited to a change of one billion dollars in manufactured exports. This is not the same thing as a change in the trade deficit of one billion dollars. The estimate refers only to the jobs involved in producing and shipping exports. The job effects created by an increase in imports must also be considered to determine increases or decreases in employment that result from either faster or slower GNP growth. This rule-of-thumb calculation depends upon what proportion of the trade deficit shift is attributable to exports and what proportion is attributable to imports.

The CHAIRMAN. Mr. Secretary, let me say this. I agree with Senator Long. We have sat on the Finance Committee for a dozen years together and all we have ever gotten is evidence that the deficit in the balance of trade is not good for us economically. There is hardly any point in talking about it.

And to the extent you can try to make something positive out of it, it reminds me of the people who say the problem with the deficit is not the deficit, it is the Federal Reserve Board because they are not printing enough money, and if they would print more money faster we would have low interest rates. Well, if that is the case, they could print it at 50 percent more or 100 percent more and solve all of our problems.

Wendell?

Senator FORD. I was enjoying you, Mr. Chairman. You can go right ahead.

You know, for a country boy I am really confused. I am really confused.

Mr. Douglas, let me start with you. What is so good about 5 classifications versus 55 classifications that will make the car cheaper?

Mr. DOUGLAS. Well, it has to do with the flexibility of management and the ability of management to use workers efficiently. There are many, many aspects of efficiently managing an automobile assembly plant, and the Japanese have learned a way in which there is significant cooperation among the employees.

With a smaller number of job classifications, they are trained to do many different diverse tasks, so that they can efficiently utilize their particular kind of assembly technique. The GM-Toyota joint venture is attempting to accomplish the same thing.

It is my understanding that, in order to have the gains of productive efficiency that are required, the union is working out with management for that plant a reduction in job classifications.

Senator FORD. Well, let me ask you, then, what is the significant difference between Germany—and you used Germany—the United States and Japan? What is the significant difference between Germany and the other two?

Mr. DOUGLAS. It is my understanding that Germany has not accomplished the technical efficiencies Japan has. As I was pointing out, their wages relative to their overall manufacturing wages have remained relatively stable. However, in the United States the wages of auto workers, even in the face of increasing competition and a slack industry, have advanced remarkably.

Senator **Ford**. Well, Japan and Germany, basically the premium there was the same according to your figures that the Chairman read a few moments ago.

Mr. **Douglas**. That is correct.

Senator **Ford**. Would it be the price of their car that comes to this country that limits their sales?

Mr. **Douglas**. Partly.

Senator **Ford**. Partly? I cannot afford a $40,000 coupe.

Mr. **Douglas**. The exchange rate plays a substantial role in that, as well. I am not trying to identify the only source of the lack of competitiveness in the United States versus the importers, but this is one. Obviously, exchange rates do play a role.

Senator **Ford**. No kidding.

Mr. **Douglas**. Yes. But if, in fact, U.S. auto wages had not increased, had remained relatively stable, as they did in Japan and Germany, by our estimates by 1990 we would have additional employment in the auto industry of 159,000 workers. So that, in some degree the industry's problem is a matter of shooting themselves in the foot.

Senator **Ford**. Well, I have heard of people shooting themselves in both feet. Then you are on crutches, and I think that is about where we are headed.

Mr. Jones, I think everybody kind of likes you and I want to get on the bandwagon and ask you a couple of questions.

Senator **Long**. I would hate to play poker with you, because you keep a straight face. Your eyes shine a little bit, I know, when you have got a pair of aces.

Senator **Ford**. Let us get back to the $120 billion trade deficit. Is that inflationary?

Mr. **Jones**. At the present time, it has held down domestic inflation, sir, because the price of imported goods and the pressure on domestic producers has probably held down three-quarters of 1 percent of the inflation rate for each 10-percent appreciation of the dollar.

Senator **Ford**. Well, when these various people or companies bring back profit, back to this country, what do they do with it?

Mr. **Jones**. The companies abroad selling here take their profit home.

Senator **Ford**. No, no, no. Take their profit and they come here; what do they do with it?

Mr. **Jones**. Basically, they have been deposited in our commercial banks, largely, in 1983.

Senator **Ford**. What else do they do with it?

Mr. **Jones**. On occasion they make direct foreign investments in the United States, and occasionally they have acquired farmland and other land of about one-half of 1 percent of our available farmland and other properties.

Senator **Ford**. Of that one-half of 1 percent, what type of land is it?

Mr. **Jones**. I think it would be corporate farms, perhaps residential properties, on occasion office buildings, which is a notable investment by the British and Canadians in particular. On occasion, there have been minor purchases in U.S. companies, existing companies.

Senator **Ford**. Well, let me just say this, Mr. Jones. I do not know about the other States, but they come into my State and if it is not for sale, they try to buy it. They buy the very best, and they do not care what the cost is, and they come in and take the best land. They buy the best buildings, they buy the companies.

And, in my opinion, that is inflationary, because they do not care what it costs and that drives the price up.

Now, would you say that it is not inflationary if they do that?

Mr. **Jones**. That particular incident might raise real estate values in Kentucky considerably. But on that, if you take the total U.S. economy, the current export-import relationship has reduced inflation for the overall economy. I cannot speak to land values in Kentucky.

Senator **Ford**. Well, I do not think it is much different in my State than in other States. When you talk to others who live there, you find that if it is for sale, they do not want it. If it is something that is not for sale, they try to get it. And that indicates something to me, and I think that is inflationary.

It is surprising to read your statement and then listen to you brief it. But you talk about a $120 billion is not too bad, as you related a few moments ago, and a $200 billion domestic deficit is not too bad, you know.

And we begin to add those together, and all I hear you saying is stay the course. And if we stay the course, my friend, we are in trouble.

Mr. **Jones**. If that was my implication, let me correct it. The $110 billion, which is the balance-of-payment deficit, the $120 billion is a census figure, is a very serious problem. And the $200 billion domestic deficit is probably the major factor leading to that $110 billion deficit.

Senator **Ford**. So you put those together and we are a debtor nation and we have lots of problems, do we not?

Mr. **Jones**. We are not a debtor nation yet, but if the current account deficit were to continue some time in 1985 we would become so.

Senator **Ford**. Mr. Chairman, can I make one final statement? I heard a statement that if all economists were placed end to end they would point in different directions.

The **Chairman**. Jack?

Senator **Danforth**. Mr. Chairman, I really do not have any questions. I have to say that I did not have any trouble understanding Mr. Jones, and I think that people who disagreed with him were a little abusive to him personally.

As I understand it, you were not saying stay the course. As I understand it, you were not saying that the trade deficits are just hunky-dory. You believe we can do things to get the trade deficit down. You are concerned about the value of the dollar. You are concerned about the deficit in the Federal budget and its effect on the value of the dollar. And you do not believe that domestic content legislation is an effective remedy to the trade deficit.

I say that as a statement because that is what I understood you to say. If I am wrong in that, I would hope you would correct me.

Mr. **Jones**. That is what I attempted to say.

Senator **Ford**. Maybe you should have let Jack talk for you.

The CHAIRMAN. Don?

Senator RIEGLE. Thank you, Mr. Chairman.

The problem is that we all have notions as to what the situation is and what ought to be done about it. There are probably as many different opinions as there are people in the room. But it is the economic analysis of what is really now an unprecedented problem which is what I think we have to put together—and then make our judgments on that basis.

That is really what has to be done, and it is not easy to do and I do not mean to suggest that it is, because it literally is an unprecedented situation, just the things you have mentioned: a merchandise trade deficit running at $120 billion rate, the fact that we are projected to become a debtor nation in 1985.

These are really quite stunning concepts to have to try to assimilate. This is not what our recent economic history has been, certainly, not what our contemporary economic experience has been. So these are changes, sort of world level changes of a size and dimension that are really quite unfamiliar to us.

We have really moved out to a whole different zone of circumstance, and it is important to say that. I think, however, there does carry with that an obligation on our part and your part to try to make some sense out of it in terms of working it down to an economic bottom line and to try to make some judgment as to whether a $120 billion merchandise trade deficit is dangerous if allowed to continue, it is perhaps even more dangerous if it rises to $140 or $150 billion.

And I think there is some obligation to trace through the relationship as to what it means on the Federal deficit, because these things are interconnected and work both ways. It is not only the wealth-creating value-added side of it that creates national economic strength, that feeds into the Government in the form of tax revenues, which helps reduce the deficit and puts people to work, but it is also the question on the other side of the effect of massive deficits driving up interest rates, making us less competitive, hurting us in the trade account.

I do not want either of us to not state fully the complexity of the problem, because it is a circular relationship. These things connect back up in the end, and that is why I think you do have an obligation, speaking for the administration, to be able to pin down as best you are able what the impact is on the Federal deficit, because that is now an urgent problem, too.

I might just say this. When the President recently went down and spoke to the homebuilders in Texas, in the course of questions and answers he was asked about the connection between high interest rates and Federal deficits, and he made a strange reply, that there was no connection in his mind between high Federal deficits and high interest rates.

And he used as the proof of that that after he became President and had much higher deficits, interest rates came down. Therefore, there could not be a connection between high deficits and high interest rates. So everybody was scratching their heads, and the financial markets got indigestion and interest rates shot up.

And recently Don Regan, the Treasury Secretary, your friend and mine, decided to really take off on the Federal Reserve and their policies. And lo and behold, that frightened the financial markets even more and interest rates went up even higher.

And I would not want the implication to go out of this room from you today that the size of the merchandise trade deficit is not a problem and it is not something that has to be dealt with on an urgent basis, and that in fact it does not have a serious connection to the Federal deficit, because we know all of those things to be true and the financial markets know that, and if they thought that was the impression of the administration it would help drive interest rates even higher.

So if that is not what you mean to have said, it is important to be very explicit about it so people do not get that impression.

Mr. JONES. Let me state as explicitly as I can that the trade deficit is very serious. I think the trade deficit is linked through very difficult linkages to the domestic deficit, and that progress on the domestic deficit, which is the goal of Congress and the administration in both packages that are moving forward, is the No. 1 issue to make progress on the merchandise trade deficit, which in turn will hopefully bring the dollar down some, making our exporters more competitive.

This is the impression I would like to leave. We will make an effort to the best of our ability to calculate the de jure domestic Federal deficit budget link to the domestic budget.

All I was trying to explain is that there are inflows and outflows which are very complex, and the argument that it is 25,000 jobs per each $1 billion in trade deficit ignores the point that there are many jobs created on the import side, there are many jobs created in the services industries, and there are many jobs created in the financial sector, which have to be offset.

Senator RIEGLE. It does not pay us to pursue this, but I want to say again that the trade deficit is a net number, net of our selling our goods abroad. So in a sense you are trading one thing off against another. We have been around this two or three times and we have a difference of opinion about it.

I want to say one thing before ending here, and that is that in your discussion with Senator Ford when you talk about money taken out of the country and coming back in to make investments here, as you point out, most comes back in in the form of loans.

In other words, these nations lend us back our money and we pay a stiff rate of interest for it. As a matter of fact, the amount of interest we are paying on borrowed moneys from abroad, which have been earned in large part through this trade deficit, is—yes, the money is coming back, but at a very stiff price.

As I watch these interest payments pile up, both to foreign lenders as well as just in terms of the interest on our own national debt, I will tell you, it worries me a great deal.

The CHAIRMAN. Russell, any further questions?

Senator LONG. [Nods negatively.]

The CHAIRMAN. Wendell?

Senator FORD. [Nods negatively.]

The CHAIRMAN. Thank you very much.

I do have a statement for the record from Mike Pertschuk, a member of the Federal Trade Commission. He agrees with the Commission's conclusions, but has some slightly different reasoning, and he asks that his statement be placed in the record behind that of Mr. Douglas.

We will now move on to Lane Kirkland and Owen Bieber.

Senator **Danforth**. Mr. Chairman, while everyone is setting up, may I make an observation?

The **Chairman**. Yes.

Senator **Danforth**. I regret to say that I have a 12:30 speech that I must make, on trade policy as a matter of fact, which I cannot get out of. And I regret the fact that I will have to leave without hearing all of the witnesses testify in full, because I think this is a very important hearing.

I particularly regret that I am not going to be here, apparently, for the testimony of Rudy Penner. I do not know if there could be—are we going to have 2 days of hearings?

The **Chairman**. Two days here and 2 days of field hearings.

Senator **Danforth**. I do not know if it would be possible for him to testify twice. Maybe I can think up some questions to give to the Chairman to ask.

The **Chairman**. I am sure Mr. Penner would be happy to brief you privately and personally in addition to his testimony.

We are delighted to have you here. I see Dick Warden and Ray Dennison accompanying you. I apologize. I talked to Mr. Kirkland yesterday and I said, I do not think you need to be here much before 10:00 o'clock. I do not think you will get on right away.

Mr. **Kirkland**. You saved me an hour, Mr. Chairman.

The **Chairman**. Who is going to go first?

## STATEMENT OF OWEN BIEBER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, ACCOMPANIED BY DICK WARDEN, LEGISLATIVE DIRECTOR; AND LEE PRICE, ECONOMIST

Mr. **Bieber**. Thank you, Mr. Chairman and members of the committee.

I want to thank you all for the opportunity to testify on S. 707, Fair Practices in Automotive Products Act. I am particularly pleased to be here this morning with the distinguished president of the AFL-CIO and my good friend, Lane Kirkland. I am also accompanied by our legislative director, Dick Warden, and Lee Price, the UAW economist.

As you know, we have submitted to the committee a detailed statement, which I would ask to have incorporated into the record, and I will be summarizing that document here this morning.

The **Chairman**. It will be printed in the record.

Mr. **Bieber**. I am sure by now everyone in this hearing room has heard the good news, so to speak, from Detroit. The auto industry is having a profit recovery and, I might add, a pretty substantial one. The auto executives are in fact cutting themselves a rich piece of the action, so to speak, and sending what I believe is a false signal that it is back to what I would term the salad days in Detroit, and that the industry's problems, it may be interpreted by some, are behind us.

Well, let me say a couple of words about car prices and the auto executives' compensation that have been so much in the news in the past several weeks. Industry profits are certainly high enough that prices should be restrained or, I would suggest, even reduced on some models.

The salaries and bonuses and stock options that the executives are taking are in my opinion outrageous. But the unfortunate fact is that those salaries and bonuses and the reports of huge profits are diverting attention from what is really happening in the auto industry.

I have to tell you today the bad news. The robust profits recovery does not mean an equally robust job recovery, and the industry still has both short- and long-term problems which must be addressed here in Washington if we are to remain in the business of building small cars, subcompact cars, and, I would underline, parts in the United States and keep all of the jobs that go along with that production.

The chart to my right behind me, which appears in my statement shows that the auto industry profit boom has not been matched by a sales or jobs boom. We sold 9.4 million cars and trucks last year and we should sell about 11.3 million this year. But that is 28 and 14 percent, respectively, below the last really good year for the auto industry, which was 1978.

More importantly from our point of view, employment in the auto industry has not recovered along with profits. Today we still have almost 100,000 members laid off from the five major U.S. manufacturers: GM, Ford, Chrysler, AMC, and Volkswagen. Tens of thousands more have lost their recall rights and are no longer counted in the official figures.

Overall, as you can see from the second chart here, we have lost 170,000 hourly jobs in autos since 1978, or a 23 percent decline in jobs. We stand at risk of losing more production and hundreds of thousands of more jobs if we do not take affirmative action to maintain the industry and the jobs in this country.

Ironically, the immediate threat comes from our own domestic auto firms. With their new-found profitability, they are poised to move our small car production and our subcompact production capacity and all of the jobs that go with it to offshore locations. The movement promises to be massive and rapid and to cost this Nation hundreds of thousands of jobs by the end of this decade.

The fact is that General Motors has publicly announced that it wants to bring 200,000 Isuzus, 100,000 Suzukis from Japan, and we all know that GM lobbied hard to have the current voluntary restraints on Japanese imports lifted to accommodate those plans. In addition to that, GM plans to import almost 100,000 cars from its South Korean affiliate, Daewoo, and it plans to bring 60,000 El Caminos into this country from Mexico.

Ford has announced its plans to import at least 160,000 small jobs from Mexico and Europe in the coming years. And Chrysler has said publicly and Mr. Iacocca has said privately to me that if GM and Ford take their small car production abroad Chrysler will have to follow suit.

Now, to understand the magnitude of this potential job shift, you have to bear in mind that small car sales make up 40 percent of our market, one-half of which is built here. If we lose our share of that small car production, we will effectively be out of the small car building business and we will lose 500,000 jobs in the process.

If we are to keep those jobs and that critical segment of our industrial base, we then need the kind of auto sector policy that is embodied in S. 707. And, at least as importantly, we need the content law to bring the Japanese auto manufacturers into greater production here, where their sales are, and to provide jobs and to pay taxes in American communities where a huge part of their market is.

We believe the Japanese have a duty to invest more fully in the U.S. market, just as I would point out the U.S. manufacturers did in the European market after World War II. I might point out that I made that point to Prime Minister Nakasone and Japanese leaders directly when I visited Japan 3 weeks ago.

America's single biggest trade problem is in the auto industry. Last year, as you know, we ran a $22 billion trade deficit with Japan, and $15 billion of that, more than two-thirds, was in auto, and that was even with the voluntary restraint agreement with the Japanese in effect.

Let me just take a moment to discuss our position on the restraint agreement. We believe the restraint agreement should be continued, but not indefinitely. It should be viewed as a bridge to carry us through to the time when a content law could be fully implemented and the Japanese firms have made substantial direct investment in the United States.

And without such a policy, coordinating restraints with content, we can expect the share of our market taken by foreign cars to soar from the current 20 percent to as much as 40 percent within the next several years, and we will lose the jobs that go with it.

But because the content legislation would have the dual effect of keeping domestic manufacturers in the business of building small cars here while inducing increased direct investment by the Japanese manufacturers in this country, content will create or save more than 1 million U.S. jobs by 1990.

It is important to note that the jobs gained or preserved would not just be in autos. We are talking about the jobs in all of the industries that supply autos, such as steel, rubber, glass, plastics, and textiles, and yes, even the so-called high technology industries. Auto, for example, is the single biggest consumer of high tech robotics in the U.S., accounting for 30 percent of the market.

Both domestic and foreign-based auto companies have acknowledged that they can comply with the legislation as it is drafted for the 4-year phase-in period. GM, Ford, and Chrysler's domestic content currently exceed the 90 percent requirement they would have to meet. On the other hand, as I pointed out, they are making plans for massive additional imports, and that content level will eventually fall below the 90 percent floor unless the legislation is enacted.

The current operations of AMC-Renault and Volkswagen also put them well above the respective content requirements. The five other companies that would be affected are all Japanese and they could quickly move to meet the requirement while maintaining their sales levels and competitive presence in the marketplace.

The announcement last week by Nissan that it will begin producing cars at its Smyrna, TN, truck plant merely underscores everything we are saying here. The foreign-based companies can meet the requirements under the proposed legislation and they can build cars profitably.

Yet, even with all of the Japanese companies' existing U.S. plants fully operational, the domestic content of the cars sold here by those firms would average only 10 percent. S. 707 would raise that average to roughly 50 percent, and it would ensure that those corporations do not simply assemble knock-down kits shipped from Japan, but rather build vehicles using substantial U.S. parts and labor.

That announcement of U.S. production by Nissan is also further evidence that all of the scare talk about retaliation and job loss is just that. The Japanese manufacturers are not going to walk away from the most lucrative auto market in the world, and that is our market. They will find ways to build here and sell here.

Yet virtually every study which has drawn negative conclusions about the legislation assumes that the Japanese will retaliate and withdraw from our markets. This is an assumption which is not supported by experience in this country or abroad.

In fact, when other countries have imposed strict auto restrictions or raised their domestic content levels for autos, Japanese firms have not only complied but cooperated. You will note from the chart to my right that every other major auto producing country somehow restricts Japanese access to its markets.

In virtually every case, the limitations imposed are far more stringent than either the present restraint agreement or the investment requirements proposed in S. 707. Yet Japan has never launched a complaint under the General Agreement on Tariffs and Trade over any of those actions. Most importantly, Japan has continued to increase its imports from those same countries.

The fact that the Japanese will, based upon all experience and evidence, continue to participate in our market means that S. 707 will maintain price and quality competition so important to our consumers, and consumers would still enjoy the full range of product choices now available.

In conclusion, let me make just a couple of important points about our union and our members and the U.S. auto companies. In 1982, when our domestic industry was down, UAW members stepped up to their responsibility. They made major sacrifices to help the companies retool and reconvert and get new, higher quality products to market. Of course, the Federal Government helped with a voluntary restraint agreement.

Now, with profits once again rolling in, unfortunately the domestic firms are poised to thank the workers and, I might add, the U.S. citizenry, by taking a huge chunk of production overseas, and with it hundreds of thousands of jobs.

GM, Ford and Chrysler have a responsibility to keep that production and those jobs here, and we can assure that they do just that with the passage of S. 707. And we need the law to bring the Japanese more fully into our market, to compete on an equal footing without the advantage of an overvalued dollar and an undervalued yen and all of the advantages provided through their tax system.

S. 707 will achieve those dual goals and will put in place a policy which will maintain a critical segment of our industrial base and preserve or create more than 1 million jobs by 1990. I firmly believe that if we fail to enact this piece of legislation we are writing off the small and subcompact producing ability of our industry in this country.

I have heard a great deal in the past and I have heard a great deal this morning about the concern of cost to the consumer. I am concerned about that. My union and I individually have spoken out time and time again.

I would like for all of you to think for just one moment what the situation can and will be if we allow a situation to occur where we no longer produce small or subcompact cars in this country and the only producers of those cars are foreign producers. I would only say, God help the consumer if that ever comes about.

Thank you very much.

[The statement follows:]

## STATEMENT OF
## OWEN BIEBER, PRESIDENT
## INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, UAW

Mr. Chairman, Members of the Committee, I am Owen Bieber, President of the International Union, UAW. I appreciate this opportunity to testify before your Committee on behalf of the UAW, its members and their families about S. 707, the proposed Fair Practices in Automotive Products Act. I am particularly pleased to be here this morning with the distinguished President of the AFL-CIO, my good friend, Lane Kirkland. We urge this Committee and the Congress to proceed swiftly to enact this pro-investment, pro-jobs legislation.

Many people wrongly believe there is no longer a need for S. 707. The news about higher auto sales, profits, and executive bonuses leads them to believe that everyone in the industry is doing fine. Nothing could be further from the truth. The auto companies employ 23 percent fewer production workers than they did a few years ago. What is worse, they threaten to drop even more jobs over the next few years unless the Congress passes this bill. Thus, we foresee that the Depression-level unemployment of many auto communities would continue until 1990 and beyond.

Time is running out. The major auto companies — both foreign and domestic — are now making long-term arrangements to supply the U.S. with a rapidly increasing volume of imported small cars and components.

We believe auto companies with large volume sales here should be investing and creating jobs here. A substantial majority of the American people agree with us. According top polls last year, they supported local content requirements for auto by margins of 57 to 39 (Lou Harris) and 74 to 20 (Garth/Penn Schoen). Editorials by both Business Week and Automotive News have supported the concept of local content legislation for the U.S. auto industry. (See Appendices A and B). Ichiro Shioji, President of the Japanese Auto Workers, has advocated for several years that Japanese auto companies should make significant investments in countries where they have large markets, notably the U.S.

## More Profits Do Not Mean More Jobs

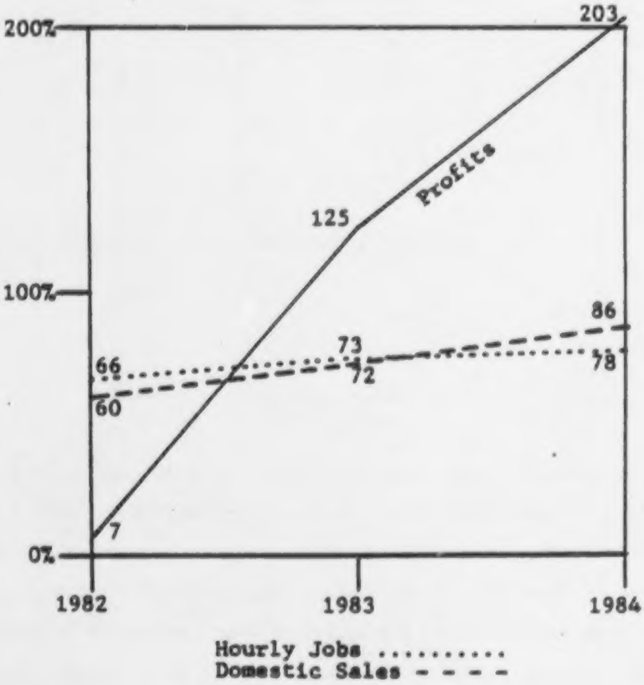
In the current auto recovery, company profits have soared while employment continues to lag far behind the level of a few years ago. Without a change in government policy, the trends for profits and for jobs will diverge even more widely in the years ahead as the U.S. companies bring in imports that displace many more U.S. jobs.

Partial and uneven recovery has taken place in the auto industry. To guage the decline and recovery in employment, sales, and profits, Chart 1 makes comparisons with 1978, the last healthy year for the auto industry. After four years of decline the industry hit bottom in 1982, the industry's worst sales year in two decades.[1] By 1982, hourly jobs had fallen to 66 percent of the 1978 level, sales had dropped to 60 percent, and the companies barely broke even. For 1984, we project hourly employment at 78 percent and sales at 86 percent of their respective 1978 levels. But Wall Street analysts predict that the auto companies this year will double the profits made in 1978.

Profits Recover More Than Jobs

(1978 = 100)

CHART 1



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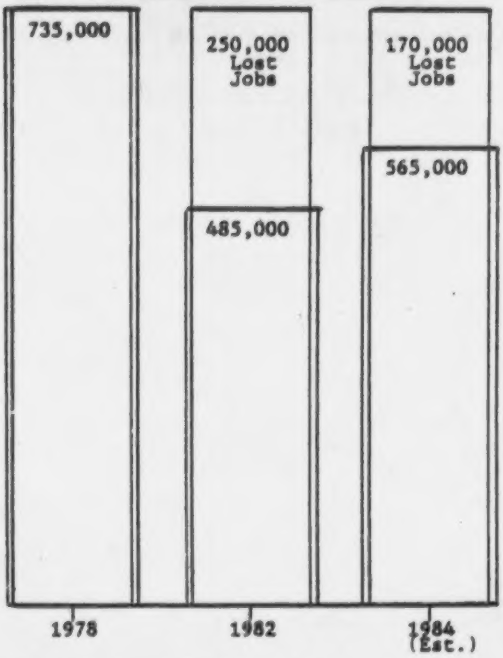
1. Appendices C and D provide details on domestic and imported car and truck sales in recent years and months.

The auto companies today employ 565,000 hourly workers — a reduction of 170,000 jobs since 1978 (See Chart 2). That 23 percent reduction in hourly auto jobs gives a more accurate picture of the employment situation than the 5 or 6 percent "auto unemployment rate" computed by the Bureau of Labor Statistics (BLS). The BLS statistic counts only workers who have not been employed since they lost their auto job and are still looking for work. The BLS does not consider one of the 170,000 workers cut from the company rolls to be an "unemployed auto worker" if (1) she is badly underemployed because, to feed her family, she has taken a low paying job that does not use her skills; (2) she has been forced into unemployment after a stint in any job in any other industry; or (3) she did not look for work within four weeks of the BLS survey, even though she had been job-hunting for years in her community plagued with a double-digit unemployment rate.

CHART 2

Loss of Hourly Jobs at Auto Companies



With the prolonged and very depressed conditions in many auto communities, most former auto workers undoubtedly fit into one of these three categories and would take an auto job if offered. Thus, the BLS statistic cannot guage the severity of the auto unemployment problem because (1) the three above categories are excluded from the BLS measure of unemployed auto workers, and (2) many other older workers have been forced into early retirement. Administration officials persist in using the BLS statistic to dismiss the unemployment problem in the auto industry although we have explained to them how distorted it is on several occasions.

The BLS statistic also cannot reflect the great financial and personal hardships experienced by jobless auto workers. For example, a Cornell University study of the consequences of the closing of a Ford assembly plant in Mahwah, New Jersey found that median income of the 5,000 workers fell more than 50 percent (from $21,600 to $10,400) in the two years after the shutdown.

More recently, a survey in New England of laid-off UAW members which included auto industry workers (conducted jointly by the UAW and the Social Welfare Research Institute at Boston College) found that their average length of joblessness was 34 weeks. Average individual earnings had dropped more than 55% to $151 per week. One-quarter had exhausted all savings and 47% had exhausted half or more of their savings. While previously all had employer-paid health insurance, at the time of the survey nearly one-quarter of our members had no coverage whatsoever. An in-progress survey of unemployed Michigan auto workers suggests even more severe hardships than the New England study.

Research has found a strong relationship between job loss and higher rates of illness and death. Thus, the many jobless workers who lose their health insurance are doing so at a time of rising need for health care protection. A University of Michigan School of Public Health study of unemployed workers in Detroit found two-fifths of the workers had lost employer-paid health insurance when they lost their jobs. Only about one-quarter of these workers were eligible for Medicaid; the others had no health coverage whatsoever. In addition, most had at least one dependent.

## Small Car Capacity Threatened

We stand today on the verge of losing most of the capacity to manufacture and assemble small, fuel-efficient autos in the United States. The overwhelming majority of those autos in the near future may be manufactured abroad and sold in this country through the existing dealer networks. If allowed to continue, this trend would by default reverse our past policy to promote local production of such vehicles.

In 1975, in the wake of the first oil crisis, the Congress wisely legislated fuel efficiency standards that have doubled the miles per gallon of the average new car. A key element of that legislation required the U.S. companies to meet the fuel efficiency averages with cars made domestically. As a direct result, when the second oil crisis hit in 1979, the U.S. companies were phasing in substantial new capacity to produce small, fuel-efficient vehicles. For example, U.S. production of subcompact cars rose 66 percent between 1978 and 1983, from 1.2 million to 2.0 million. During those same five years, the U.S. companies sharply curtailed their own imports of subcompact cars. The second oil crisis would have had an even more devastating effect on the industry in the absence of the capacity added due to the 1975 law.

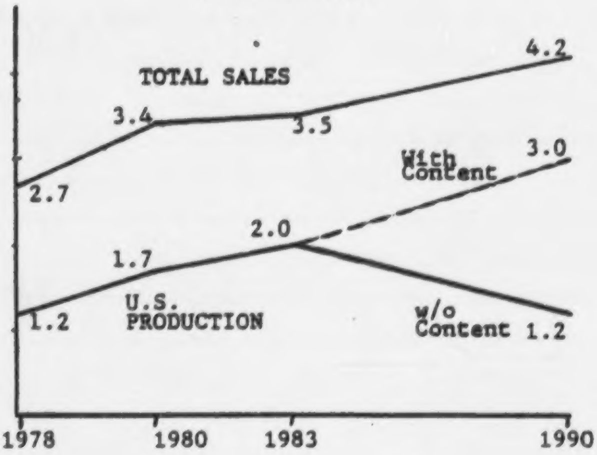
The Big Three have scheduled massive increases in vehicle imports in the next year or so and are considering further imports (See Appendix D). For example, GM has already announced plans for its U.S. dealerships to sell annual imports of 90,000 Suzukis and 200,000 Isuzus from Japan, 60,000 Daewoo cars from Korea, and 200,000 U.S.-assembled cars with 50 percent imported value from Toyota. These 550,000 new subcompact introductions far exceed GM's annual deliveries of Chevettes and T-1000s which GM has made with over 90 percent U.S. content since 1975. In addition, GM will import from Mexico 60,000 vehicles with a truck bed on an intermediate-size car body. Together these new imports would represent roughly ten percent of GM vehicle sales in this country last year.

GM is not alone in making a big turn toward imported vehicles. Ford plans new imports in coming years of at least 160,000 small cars from Mexico and Europe. Chrysler also acknowledges that it is considering a major hike in its imports.

As a result of such developments, U.S. imports of subcompacts could rise from 1.4 million in 1983 to 3.0 million in 1990 if Congress does not enact domestic content legislation. (See Chart 3.) We predict that sales of subcompact cars will number 4.2 million by 1990 by conservatively assuming that 11 million cars will be sold in 1990 and that the subcompact share will remain the same as last year, 38 percent. Yet the current plans of the auto companies leave little assurance that they will build more than 900,000 subcompacts in this country by 1990.

CHART 3

WHERE WILL SUBCOMPACTS BE MADE?
(In Millions)

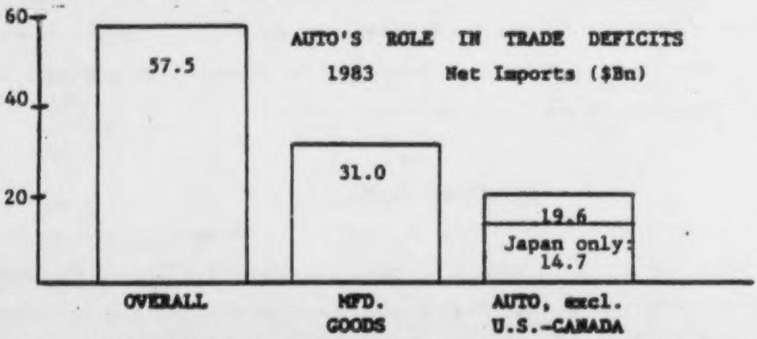


A key point is often overlooked in discussions about the future of small car production in this country: the companies are currently ringing up record profits even as they make almost all of their small cars here. The assumption underlying the 1975 fuel efficiency law has been fulfilled: the auto companies can remain profitable overall even if they make less profit on more fuel efficient cars. The U.S. government should not now permit them to abandon most small car production because the companies expect to make even higher profits with imports.[2] If that is permitted, the U.S. auto industry and the economy as a whole would be even more vulnerable in any future oil crisis.

## Strengths of the U.S. Auto Industry Make It a Target

The auto industry's characteristics closely fit the profile of what analysts assume to be America's strengths in terms of technology, R&D, linkages, marketing, and strong local companies. Yet, paradoxically, the auto industry presents the U.S. with its biggest industrial problem by far. As Chart 4 indicates, our trade deficit in auto represented two-thirds of our total deficit in manufactured goods last year and a large portion of the overall trade deficit. The tables in Appendices F, G, and H show that imports of cars and parts have both been growing rapidly.

CHART 4



The auto industry is a high technology industry. The industry leads other industries in its application of computers for both product design and manufacturing processes. It deploys perhaps a third of the robots now in use in the U.S. Ironically, the automation techniques already standard in auto production have just been introduced in the computer industry at Apple Computer's new Macintosh plant.[3]

Auto spends heavily on research and development. Auto's R&D expenditures as a percentage of sales (4.0 percent) far exceeds the percentages in such successful exporting industries as chemical (2.9 percent), electronics (3.8 percent), and construction and farm machinery (3.3 percent).[4]

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2. Since some of the U.S. auto companies are falling short of the fuel efficiency standards today, there is some doubt whether they can meet them in the future if they follow through with plans to shift small car production abroad.
3. Infoworld, "The Macintosh Factory: Apple Invests in State-of-the-Art Manufacturing", March 19, 1984.
4. Business Week, June 1, 1983.

The auto industry has synergistic linkages to many other key supplier industries such as machine tools, paints, textiles, steel and other metals, glass, etc. The auto industry has cooperated with these other industries to make many important technological advances that have applications in other industries. Such breakthroughs often could not have been achieved by those supplier industries alone or in cooperation with smaller applications industries.

We have a large internal market that demands the most innovative products. Producers for this market enjoy substantial economies of scale. Our market for subcompact cars alone — 3.5 million last year — far exceeds the total car market in any other single country in the world.

The two largest auto companies in the world are both based here. Last year, GM had U.S. sales of 5.1 million and worldwide sales of 7.8 million while Ford had U.S. sales of 2.5 million and worldwide sales of 4.9 million. Their closest rivals, Toyota and Nissan had worldwide sales of 3.1 million and 2.4 million, respectively.

In theory, these five characteristics should have worked to the advantage of the auto industry here relative to other industries here and to auto industries abroad. In practice, they work to its disadvantage. Other governments want an auto industry because of its "high tech," intensive R&D, and synergistic linkages. Our large internal market makes a good export market for others. And the large size of the U.S. companies makes them more prepared to produce abroad.

## Auto Policies in Other Countries

The auto industry has played a prominent part in the industrialization schemes of Europe, Japan, and the newly industrializing countries. For decades, they have severely limited auto imports. This not only reduced potential U.S. auto exports but induced U.S. companies to produce abroad. More recently, many of these other countries have promoted auto exports. With every other potential export market relatively closed, the push for exports ends up in the U.S. market.

The auto industry of every country with substantial automotive exports to the U.S. has benefited from the active support of its local government. In studies completed in the last year, the International Trade Commission (ITC) has documented how the governments of Europe and Japan have provided critical and substantial assistance to protect and nurture their domestic auto industries.[5]

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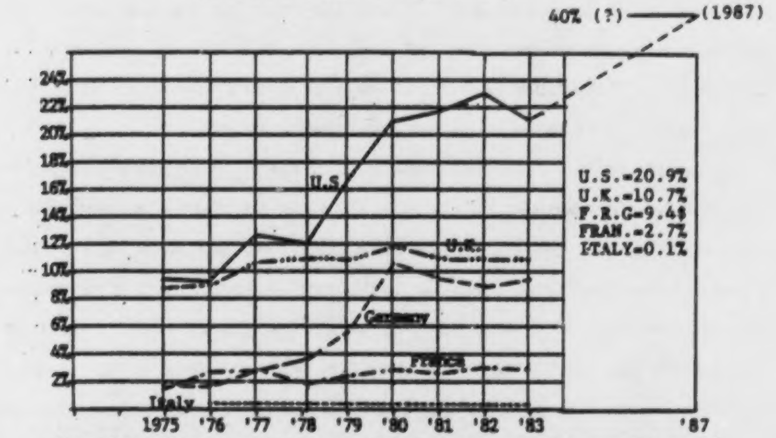
[5] International Trade Commission, "Foreign Industrial Targeting and Its Effects on U.S. Industries, Phase I: Japan," October 1983, and "Phase II: The European Community and Member States," April 1984.

Nothing like "free trade" occurs in the auto industry around the world. Over 38 countries have local content laws. Imports comprise less than 1 percent of the Japanese vehicle market. As Chart 5 and Appendix I indicate, the major European countries have kept the Japanese share of their home markets far below the percentage allowed by the U.S. In effect, the major countries of Europe have told the Japanese companies that increases in their market share require substantial investments in local production.

Japanese Share in Major World Markets

CHART 5



Industrial policies to assist the auto industry have generally succeeded around the world. As a result, U. S. efforts to convince other countries to stop assisting their auto industries will prove futile. That still leaves us with the problem of what to do about the fact that our industry is rapidly being displaced because we lack an appropriate policy. While the UAW welcomes the fact that a healthy auto industry has contributed to the prosperity of workers in many countries, we believe that our government has responsibility to prevent the policies abroad from spilling over and injuring us.

## Lack of Response by the U.S. Government

The U. S. government is effectively discouraging auto production here. We are losing auto investment and jobs while auto industries abroad prosper with government assistance. We not only lack a counter-strategy to retain auto production here, but we permit badly misaligned exchange rates and tax rules on trade to further erode the industry. Despite the unfair and artificial conditions that pose an imminent threat to our auto industry, the U. S. has become the first nation in the world that has failed to defend its industry.

The auto companies often find it more profitable and/or less risky to expand in other countries despite higher real costs of production than here. With fair exchange rates, most countries can compete with the U.S. only with substantial goverment assistance.[6] Japan alone could rival the U.S. industry in terms of true production costs but it also enjoys very sizeable unfair advantages from the yen dollar exchange rate and the tax adjustment rules for international trade.

With the dollar overvalued and the yen undervalued, the two currencies are misaligned by 25 percent or more. The misalignment has the same effect as a 25 percent tax on U. S. production or a 25 percent subsidy on Japanese production for the U. S. market. If the dollar value of the yen went up by 25 percent to where it should be, the cost of a $6,000 Japanese car would rise by $1,500.

In addition, the international trade rules for border tax adjustment are also biased against U.S. auto production. Those rules allow indirect taxes — on which our major competitors tend to rely — to be rebated on exports and charged on imports. The U.S. relies more on direct taxes which are neither rebated for our exports nor charged on competing imports. This means that auto imports from Japan bear few taxes in either Japan or the U.S., but U.S. exports to Japan face substantial taxes in both places. The argument in economic theory that this distortion will be offset by a lower U.S. exchange rate is clearly nonsensical today.

With its passive policy toward the auto industry, the U.S. industry is inevitably being displaced by production from other parts of the world. Every other major auto-producing center has adopted a combination of policies that assure net auto exports. S. 707 would prevent further rapid erosion of this industry.

## Differing Reponses of the U.S. Auto Companies and the UAW

The UAW and the U.S. auto companies do not have the same perspective on the problems of the auto industry here. We are concerned about production and employment here where we live and work. The companies can earn profits whether they supply this market with autos made here or abroad.

The U.S. auto companies have no particular allegiance to production in the U.S. for this market. They already have substantial production facilities abroad and are prepared to produce for this market wherever they find it most profitable. The auto companies tend to resist government interference in their pursuit of profit — whether for purposes of safety or fuel efficiency in other situations or for the sake of U.S. investment and employment in this situation. In a world where government policies are making it more profitable to produce abroad for this market, the U.S. economy and our members will lose out.

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[6] According to Ford Chairman Philip Caldwell, true production costs in the U.S. cannot be matched anywhere else in the world except Japan. "The Automobile Crisis and Public Policy: An Interview with Philip Caldwell," Harvard Business Review, January-February, 1981.

As the UAW has tried to make the case for the workers directly and indirectly tied to the auto industry, we have been saddled by the unpopularity of the industry. Over the years, the union has protested early and vociferously about inadequate small cars, huge profits, excessive prices, and outrageous executive bonuses. Because we are often unfairly blamed for these conditions, our job of defending the jobs related to the industry is made more difficult.

The domestic content legislation is pro-investment and pro-competition. By insuring substantial investment, the bill addresses our concern for preventing a rapid erosion of auto related employment. By assuring competition among the major auto companies, it will keep down prices and profits while continuing progress in product and production technology.

## How S. 707 Would Work

The provisions of S. 707 are designed to stabilize production in the domestic industry while promoting competition among the auto companies. All companies selling more than 100,000 vehicles a year here[7] would have to achieve a minimum domestic content ratio.[8] The content ratio is based on a company's U.S. auto-related costs as a proportion of its U.S. sales.[9]

The content requirement assigned to a company is based on a smooth upward sloping scale between 100,000 and 900,000 and a flat scale beyond that. After a one year grace period, the requirements would be phased in by equal segments over the next three years. From model year 1987 onward, the content percentage (up to a maximum of 90 percent) is derived by dividing sales by 10,000. Thus sales of 355,000 entail a 35.5 percent content requirement. A "safety net" provision prevents a company from reducing its content ratio by more than 10 percent below the 1983 model year. Thus, AMC/Renault which currently has about 80 percent domestic content could not fall below 70 percent. Chart 6 shows the content percentage that would be required for each company from model 1987 onward, if they have the same sales levels as in calendar year 1983. (See Appendix J for assumptions behind this chart.)

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[7] In 1983 the 10 auto manufacturers that sold more than 100,000 units supplied over 98 percent of the U.S. market.

[8] Contrary to the standard media description, the bill does not "require a certain percentage of American parts in every imported vehicle." The requirements apply only to the largest auto companies and permits those companies to import cars without American parts.

[9] Technically, the content requirement is based on a vehicle manufacturer's trade balance in automotive products. For example, a 90 percent content requirement would permit a company to have net automotive imports (imports minus exports) worth up to 10 percent of its wholesale auto sales here. Thus, a company gets credit for all its U.S. costs, including such items as shipping, advertising, taxes, etc. With the content measure based on a company's trade balance, it can be readily calculated by the few companies affected and easily monitored by the U.S. government.

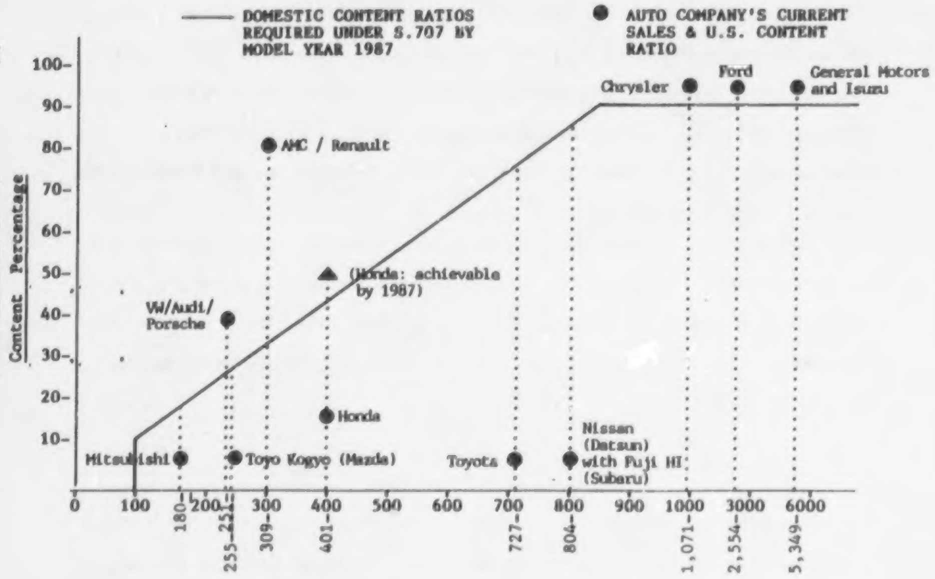

CHART 6.-- Thousands Of Cars Sold In Calendar 1983

## The Auto Companies Can Comply

Both domestic and foreign-based auto companies have acknowledged that they can comply with the legislation. In practice, the bill would prevent five companies from drastically reducing their production and purchases in the U.S. (GM, Ford, Chrysler, AMC/Renault, and Volkswagen). In addition, it would bring substantially greater domestic production and purchases by five others Toyota, Nissan, Honda, Mitsubishi, and Mazda (Chart 6).

The Big Three U.S. auto companies, GM, Ford, and Chrysler, would each face a 90 percent content requirement. In testimony last year, they stated that their recent operations exceed that level. On the other hand, they are making plans for massive additional imports on parts and vehicles that will not be offset by rising exports (see page 4 and Appendices F and G). Unless this trend is curbed, content at each of the Big Three will soon drop below the 90 percent floor.

The current operations of both AMC-Renault and Volkswagen also puts them well above their respective content requirements (See Chart 6).

With four years to phase in greater domestic operations and purchases, the remaining five companies can maintain their sales levels and competitive pressure. They can move quickly into closed but modern facilities such as VW did in Pennsylvania and Toyota is doing in California. With recent advances in computer-aided production technology, they can assemble quite different vehicles along the same assembly line.[10] U. S. producers can readily supply virtually all parts.

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[10] For example, along the same assembly line in Japan, Toyo Kogyo assembles sports cars and sedans, rear-wheel drive and front-wheel drive vehicles. In addition, Nissan with build cars along with trucks on its current U.S. assembly line.

Honda would have little difficulty in meeting the requirements applicable to its recent sales levels. It recently announced plans to expand capacity at its Ohio facilities to assemble 300,000 cars a year by 1986 and to build 60,000 engines there by 1985. In addition, it will assemble cars in Canada that could readily use parts exported from the U.S. Since the Hondas produced in the U.K. now exceed 60 percent European content without locally made engines, Hondas made in the U. S. can substantially exceed 60 percent domestic content.

The evidence for Nissan also suggests the capacity to increase rapidly its domestic content here. Last week, Nissan announced that it would assemble cars as well as trucks along the assembly line at its new plant in Tennessee. This move had been anticipated since their plant capacity here far exceeds local truck sales and Nissan recently decided to put only a small investment in the U.K.[11] Although Nissan expects to produce 240,000 units annually by 1987, they can actually assemble more on that line, it has adjacent acreage for additional capacity, and it can sharply increase domestic parts production or purchases.

Toyota has contributed the least to the U.S. economy in comparison to what it has taken from it. Its $4 to $5 billion annual exports to this country provide it with ample resources to invest in substantial production and jobs here to supply local Toyota dealers. Toyota has substantially more resources than either Nissan or Honda, both of which have invested independently here to supply their own dealership network.

Since the cars from Toyota's joint venture with GM are scheduled to supply GM dealers, Toyota still has no plans to supply its U.S. dealers with Toyotas made in the U.S. Moreover, the joint venture will be using only one of the two assembly lines previously used by GM at the facility. While we welcome Toyota investment here — including the joint venture, substantial additional investment is in order here to supply Toyota dealers.

At this point, Mazda is exploring auto production in the U.S. If it does decide to produce here, its operation should be able to meet the requisite content levels.

Although Mitsubishi is known to be seriously considering U.S. production, it has not yet made a commitment to U.S. production or significant parts purchases. Because of its low sales level, Mitsubishi could readily comply with S. 707.

The latest plans of Toyota, Nissan, Honda, and Mazda prove two critical points about the Japanese auto companies. First, such commitments would not have been made if, as some have worried, these companies had any intention of pulling out of this large, lucrative market. Second, they respond to pressure from the U.S. government. Over the last few years, pressure has come in the form of House passage of domestic auto content legislation and renewed demands for export restraint.

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11. In February, Nissan decided it will assemble only 24,000 cars a year in the U.K. These will be included as part of Nissan's U.K. import quota. According to the March issue of the respected Japanese business publication Oriental Economist:

> In order to maintain its No. 1 position in overseas production, Nissan is strongly required to embark upon passenger vehicle production not only in Britain but also in the United States. This is the reason why Nissan has decided to downscale its British project and reserve what financial and other resources it has been left for its U.S. project.

While we welcome their progress, we find that the announced plans of the five major Japanese companies remain very inadequate. They have invested primarily in assembly plants that, in the absence of domestic content legislation, will rely heavily on imported components. As a result, when their plants become fully operational here, the domestic content of all vehicles sold here by the Japanese companies would average roughly 10 percent. S. 707 would raise that average up to roughly 50 percent.

### Effect of Domestic Auto Content on Jobs

Enactment of S. 707 would create or preserve over a million jobs by retaining U.S. small car capacity. That includes 660,000 jobs at the auto companies and their suppliers and many more due to the ripple effect in their communities. As Chart 7 indicates, we predict that 390,000 jobs — 13 percent of current jobs — will be lost due to productivity gains over the next six years. On the other hand, without content legislation, we stand to lose a total of 1,050,000 auto-related jobs, fully 36 percent of current jobs. Thus, this legislation would make the difference between serious job losses and catastrophic job losses in auto-related industries.

U.S. automotive production currently amounts to about three-quarters of the value of new cars and trucks sold here. Imported vehicles and parts in excess of U.S. automotive exports account for the remaining quarter of our market. By requiring U.S. production and purchases by all companies with large sales here, this bill would stabilize the future ratio of U.S. production to sales at roughly three-quarters. By the end of the decade, in the absence of the local content law, U.S. automotive production as a share of the market can be expected to fall to about one-half of U.S. auto sales. A fall in U.S. production from three-quarters to one-half of the auto market would eliminate the jobs of more than 196,000 auto workers — and at least 5.5 times that many outside the auto industry[12] for a total of almost 1.3 million jobs.

To stabilize U.S. auto investment and employment relative to the market, the bill compares a company's production here with its sales here. The overall domestic value-added of foreign companies would rise to roughly 50 percent of the value of their sales here, instead of remaining at about 15 percent. In addition, net foreign sourcing by the largest U.S. companies would continue to produce the equivalent of at least 90 percent of their sales here, instead of dropping to an otherwise probable 80 percent by 1990.

Maintaining U.S. production of small, fuel-efficient vehicles and parts will not cost this economy jobs as opponents have alleged. Indeed, one of the two scenarios it considered, the Congressional Budget Office projected a large employment gain.[13] Other opponents have focussed on particular jobs at dealerships in trucking, and on the docks. Employment at dealerships should not be affected if more vehicles are built here rather

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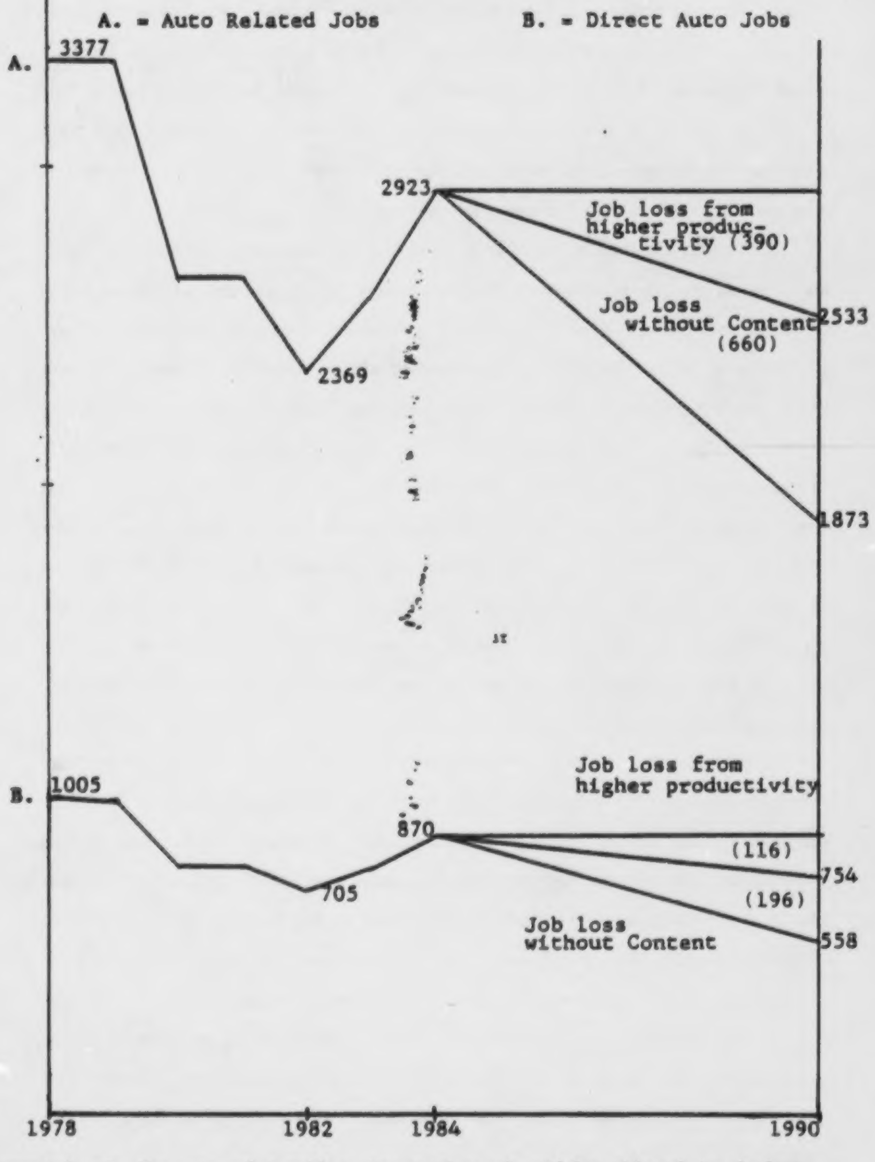
[12] According to the economic model developed by the CBO, for every additional job in the auto industry by 1990 there will be a positive ripple effect adding 5.5 more jobs in the rest of the economy — assuming no retaliation, which we consider appropriate for reasons discussed on pages 11-12. The CBO, however, ignores the effect of the bill in curbing the rise of the import share and of foreign sourcing. (See Appendix K.)

[13] A critique of the Congressional Budget Office analysis is included as Appendix K.

CHART 7.-- AUTO-RELATED JOBS IN 1990
(WITH CONTENT AND WITHOUT CONTENT)
(In Thousands)



than imported. In the case of trucking, the number of vehicles shipped to dealers should stay the same but the amount of parts shipped within the U.S. for assembly here would be higher. Finally, auto-related jobs on the docks[14] should be little changed since increased exports and imports of parts should largely offset the effect of lower vehicle imports.

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[14] Extrapolating from Toyota's estimates, there are roughly 7,200 jobs in U.S. ports handling imported vehicles.

## Effect on Consumer Prices, Quality and Choice

Enactment of S. 707 would have a positive effect on the prices, quality, and choice of vehicles available to the American consumer. Studies of the legislation which have projected significant price increases have assumed a major reduction in sales by foreign companies. However, the evidence here and in other countries indicates that the auto companies use every effort to maintain their market. Thus, rather than walk away from this market, all the major auto companies would invest and purchase here in an attempt to maintain and increase their market shares.

The media has widely reported huge auto price increases. In fact, the major reason people are paying more when they buy a new car is that they are buying more car rather than paying higher prices for the same size, accessories, and quality of car. Partly, this is due to the objectionable practice of the companies of loading up cars with mandatory accessories. The BLS computes a price index for new cars by correcting for the upscaling in actual purchases. In the last three years, this price index for new cars has risen a total of 13.3 percent — less than the 15.9 percent increase in the overall Consumer Price Index (see Appendix L). Nonetheless, the level of auto prices is still too high. Their huge profits indicate very successful cost-cutting so that the Big Three can both cut prices and continue to manufacture small cars here. For the future, the auto industry will continue to achieve much higher productivity increases than other industries (See Appendix M). That should help it to keep its price increases below average.

Consumers are justifiably concerned about product quality. Great strides have been made in improving the quality of U.S.-built vehicles in recent years, proving that high-quality small cars can be produced in the U.S. VW management has said that its Pennsylvania-bred Rabbits are of higher quality than their Wolfsburg, Germany counterparts. Honda says its Ohio-built motorcycles have a lower defect rate than its Japanese or Belgian products. A recent report finds Honda's U.S.-built Accords at least as well-made as the Japanese-made ones. Finally, a study commissioned by one U.S. auto company revealed that its vehicles' quality — as measured by an index of "things gone wrong" — had improved over 50 percent between 1980 and 1983, pulling them ahead of several Japanese import lines to within striking distance of the all import average.

A domestic content law would also retain competition among the world's auto companies to provide the American consumer with a wide variety of innovative products built with the most efficient technologies available. The U.S. producers would continue to be pressured by the discipline of the design, engineering, and managerial innovations of foreign-based manufacturers. S. 707 leaves a company ample flexibility to reduce costs by integrating its U.S. operations into a global production network. Beginning with a graduated four-year phase-in, it must generate production here, but can choose which parts or assembly it wants done here and which vehicles and parts it will import. As a result, the American car buyer should have a wide selection of available vehicles with the best quality and most advanced technology.

## GATT, Retaliation, and U.S. Exports

Some critics of S. 707 argue that the legislation is so inconsistent with international norms that its enactment would instigate retaliation against U. S. exports particularly by Japan, and thereby nullify the gains to the auto industry. This fear of retaliation cannot be supported by a careful analysis of auto policies around the world, the political/diplomatic nature of the General Agreement on Tariffs and Trade (GATT), and Japan's trade patterns.

For a bill that would simply give this country an auto trade policy along the lines of other countries, S. 707 has provoked quite a storm of protest. Critics have called it "the first shot in a trade war" and "another Smoot-Hawley", referring to the 1930 measure that hiked virtually all U.S. tariffs at once. In contrast to the ill-conceived Smoot-Hawley, S. 707 applies to a single industry which, according to all industry experts, stands in jeopardy of serious import injury. Perhaps most importantly, in this case the U.S. would not be firing the first shot but the U.S. would be the last to raise a shield. Finally, it does not isolate the American economy from involvement with other nations, but integrates foreign companies into the U.S. economy over a reasonable four year period.

The House-passed version of domestic auto content, H.R. 1234, calls for disputes to be settled by the rules of international agreements when, like the GATT, they have a procedure for dispute resolution, not by the U.S. courts. As Appendix N explains, the appropriate place to decide whether U.S. legislation raises conflicts with the GATT is through the GATT itself, not in the U.S. courts.

As noted before, the bill affects three U.S. companies, two European companies and five Japanese companies at current sales levels. The American and European companies must shelve plans to bring in a flood of imports. Some, but not all, of the five Japanese companies would have to devote more resources to U.S. production and purchases, than their announced plans indicate.

When other countries have imposed stiff auto restrictions or raised their domestic content levels for auto, Japanese companies have not only complied, they have cooperated. Japan has never lodged a GATT complaint over any of those actions. Most importantly, Japan has continued to increase its trade with those countries. Between 1978 and 1983, Japan increased substantially its imports from every country with a large auto market severely restricted to Japanese exports, including Australia (up 38 percent), France (40 percent), Italy (21 percent), the U.K. 16 percent), Mexico (282 percent), and Brazil (172 percent).[15]

What would happen if Japan did decide to break all precedent and take formal action against U.S. auto content legislation in the GATT? If, after informal GATT consultations, our two countries fail to iron out difficulties, Japan may ask for a formal legal decision by an impartial panel of experts. At that point, the U.S. would file countercharges against the auto policies of Japan and many other GATT members in Europe, Australia, Latin America, etc.

Thus, before Japan could hope to obtain a recommendation from a GATT panel against U.S. auto content legislation, the U.S. could win rulings against the auto policies of Japan and most other auto-producing countries. Their more stringent restrictions directly injure the U.S. auto industry because they divert Japanese exports to our more open market.

Legal recommendations by a GATT panel have no force, however, until the official representatives of the 88 GATT members ratify them. Given the auto policies around the world, the U.S. would be in a very strong position to defend domestic auto content before that body. Unless that body has the political will to change auto policies around the world dramatically, the U.S. would be justified in keeping its modest domestic auto content law.

Japan can take action against the U.S. only by shooting itself in the foot. It buys from the U.S. only what it cannot make for itself: raw materials and products using technology it does not yet have. For many of these products, the U.S. is Japan's predominant supplier; and for those imports for which Japan does have alternative sources, those source countries have auto policies far more restrictive to Japanese auto imports than the proposed U.S. legislation: Australia, Argentina, Brazil, Indonesia for foodstuffs and raw materials; European countries for manufactured goods. Japan could retaliate against modest U.S. auto content legislation only by buying less from us and more from countries with auto policies which limit their exports even more severely than would S. 707.

We agree that heightened international economic tensions warrant our concern and that the experience of the 1930s has important parallels and lessons. At that time the U.S. had extremely high real interest rates, the world economy was experiencing volatile exchange rates and general economic decline, and a number of developing nations had to default on their foreign debts. These conditions were primarily responsible for shrinking trade then and are again today. Our international economic distress calls for an international commitment to reflation, repudiation of tight monetary policies, a more orderly exchange rate regime, and expanded credit to countries with a debt-servicing crisis. These, not doctrinaire free trade, were both the policy prescriptions of Keynes after the debacle of the 1930s and the hallmarks of the post-war boom in the international economy.

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[15] Japan Tariff Association, "The Summary Report: Trade of Japan," issues for 1978 and 1983.

## Constructively Integrating Japanese Industry into the World Economy

The integration of Japan into the world economy on an amicable basis presents one of the most difficult problems in the years ahead. Japanese investment in our industry as envisioned by S. 707 would promote such integration.

Japan has a powerful and yet unbalanced economy. Only a very narrow sector of that economy has competitive product and production technology and is responsible for its exports. The rest of the economy — in services, agriculture, and other manufacturing — has relatively low productivity.

On the import side, Japan has a relatively closed economy although it may not appear that way in official laws and regulations. Japan's imports are nonetheless very effectively limited without such official public measures.

In the case of official restrictions, the recent negotiations on beef and citrus exemplify the Japanese determination to prevent imports from injuring its industries. The Japanese government projects local beef production will climb almost 5 percent a year over the next four years and intends to allow imports to rise 6 percent a year. Imports from the U.S. will increase from 6 percent to 8 percent of the Japanese market only because the import share from other countries will shrink. Similarly for oranges, Japan agreed to increase imports from the U.S. (virtually its sole source of imported oranges) so that the U.S. share of the Japanese market should rise from 3 percent to 5 percent over four years. According to the May issue of the Oriental Economist, the additional U.S. exports over the four years "translate to about the equivalent of one hamburger per Japanese per year increase, five or six additional oranges, and a few glasses of orange juice."

On the export side, the Japanese government has worked with its manufacturing industries to become competitive exporters in the most rapidly growing sectors. Automobiles and steel fit that bill at one time and have received substantial government support. More recently, the Japanese government's vigorous support has focused on electronics, telecommunications, and aerospace.

The Japanese government has used credit allocation, import restrictions, subsidies, corporate restructuring, etc. to assist civilian industries in achieving technological parity and large scale production. To one degree or another, the successful Japanese export industries — including auto — have benefitted from such "targeting" measures. These measures can be dismantled once a Japanese industry gets revved up to compete successfully in export markets.

The Japanese export sector has also benefitted from the key resources and skilled manpower (especially government spending, engineers, electronics and computer specialists, and skilled craftsmen) that are more available to it in part because Japan devotes a much lower percentage of its economy to defense than does the U.S.

Japanese targeting and the undervalued yen have sped the internal development of the Japanese economy and raised their standard of living. If the effects were confined to Japan, we would not complain. The unfairness of the situation arises from the Japanese export drives, coupled with a passive U.S. trade policy, which have rapidly displaced American industries and jobs.

Japan's booming exports and lagging imports are creating huge trade surpluses. Those trade surpluses comprise the bulk of the $31.5 billion current account surplus that the OECD projects for Japan this year. Taking the period 1983 through 1990, the Industrial Bank of Japan projects that Japan will accumulate a trade surplus of $400 billion. Thus, Japan threatens trade disruption and financial "recycling" problems comparable to those caused by the oil exporters twice in the last decade. It also indicates a permanently "undervalued" yen for trade purposes.

Japanese companies should reduce future trade surpluses by converting some of their export earnings into foreign investment. The auto industry offers a case in point. Over the seven year period 1980 to 1986, Japanese auto companies can expect to enjoy sales exceeding $100 billion in our market. Yet their announced investments here cumulate to less than 2 percent of those sales during the same period.

Thus, enactment of S. 707 would offer a constructive approach to reducing the soaring Japanese surpluses and injurious exports in this key sector. In addition, enactment of S. 707 would put Japanese economic policy-makers on notice that they can no longer expect U.S. passivity when Japanese industry adds substantial capacity with the potential to displace hundreds of thousands of U.S. jobs. For the future, they would be more careful that their new growth industries do not inflict such injury to workers in the counterpart U.S. industry.

## Conclusion

The auto industry stands at a crossroads. If the government fails to act, the auto companies will reverse the progress made in creating U.S. capacity for small, fuel-efficient vehicles. The U.S. companies, particularly GM, are planning to supply their U.S. dealer networks with a vastly growing supply of vehicles and parts from their facilities abroad. If the government permits those plans to be carried out, the U.S. economy and its workers will suffer but not company profits or executive bonuses.

Too often our government intervenes to assist the profits of American business rather than the jobs of American workers when serious problems crop up in the international marketplace. For example, our government has vigorously defended the interests of the U.S. banks during recent Third World debt negotiations, at the expense of U.S. exports and jobs. When manufacturing industries have been granted import relief, they have been permitted to shift their investments out of the industry. Steel companies have taken revenues from sales rescued from import displacement and invested them outside of steel production.

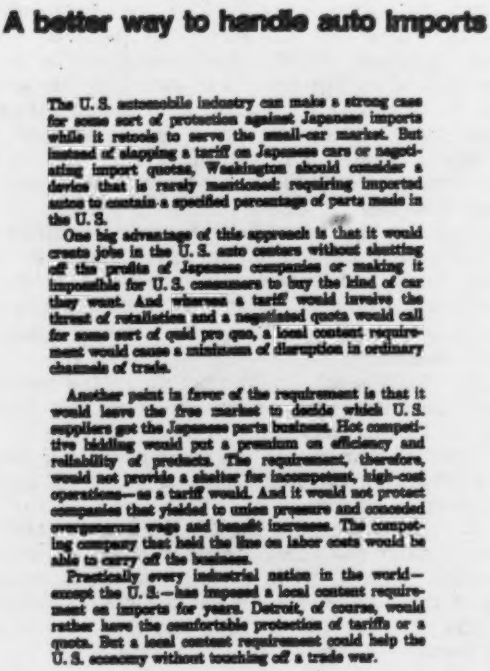
When the U.S. government obtained export restraints from Japan and when the UAW renegotiated its contracts early in 1982 (at a cumulative cost of $8,000 per worker during the two and a half year contract), our understanding was that the auto companies would put additional resources into making more competitive small cars here. Despite their high profits, there is scant evidence that they have devoted more resources to small car production here. The auto companies have stayed in auto production, but invested more and more outside the country.

The time has come for the U.S. government to decide that it will maintain a competitive auto industry. That decision would bring the U.S. into conformity with the pattern of auto policies around the world. That policy is supported by a wide majority of the American people.

This country needs expansionary monetary, fiscal, and industrial policies to address the serious problems of its industries. Carefully constructed trade measures must play a part. Enactment of S. 707 would prevent further massive erosion of U.S. auto-related jobs. It could curb the alarming rise in foreign sourcing by U.S. companies, while inducing foreign-based companies to invest and compete here. Because of the magnitude of the industry and the ripple effect on suppliers and spending, the bill would create and preserve well over a million additional jobs in the U.S. economy by 1990.

Mr. Chairman, we thank you for this opportunity to testify on behalf of the UAW in support of the proposed Fair Practices in Automotive Products Act. We urge members of this Committee and the Senate to support S. 707. Thank you.

APPENDIX A



## A better way to handle auto imports

The U. S. automobile industry can make a strong case for some sort of protection against Japanese imports while it retools to serve the small-car market. But instead of slapping a tariff on Japanese cars or negotiating import quotas, Washington should consider a device that is rarely mentioned: requiring imported autos to contain a specified percentage of parts made in the U. S.

One big advantage of this approach is that it would create jobs in the U. S. auto centers without shutting off the profits of Japanese companies or making it impossible for U. S. consumers to buy the kind of car they want. And whereas a tariff would involve the threat of retaliation and a negotiated quota would call for some sort of quid pro quo, a local content requirement would cause a minimum of disruption in ordinary channels of trade.

Another point in favor of the requirement is that it would leave the free market to decide which U. S. suppliers get the Japanese parts business. Hot competitive bidding would put a premium on efficiency and reliability of products. The requirement, therefore, would not provide a shelter for incompetent, high-cost operations—as a tariff would. And it would not protect companies that yielded to union pressure and conceded overgenerous wage and benefit increases. The competing company that held the line on labor costs would be able to carry off the business.

Practically every industrial nation in the world—except the U. S.—has imposed a local content requirement on imports for years. Detroit, of course, would rather have the comfortable protection of tariffs or a quota. But a local content requirement could help the U. S. economy without touching off a trade war.

BUSINESS WEEK, April 13, 1981.

APPENDIX B

## editorial opinion

# End the hysteria

Heated debate over the future of imported cars in this market erupted during the recent NADA convention and quickly came to dominate the New Orleans sessions. A great amount of heat and not much light was generated.

Sentiment runs from one extreme to the other: All the way from keeping the market totally free to slamming the door. The stands taken seem largely emotional, based on gut reaction. We think it is time to end the hysteria.

Before it is too late, and before action is taken that is ill advised and could be sincerely regretted later, some sensible decisions must be made.

Now is the time to begin rational debate, aimed toward reaching an equitable decision on import participation.

We still believe that the AUTOMOTIVE NEWS proposal, set forth here a week ago, could well be used as a benchmark. To recap briefly, we think any non-North American automobile should be able to enter the U. S. with no restrictions so long as its volume does not exceed 50,000 units a year. But for each additional 50,000, local content on the total number of cars should be 5 percent. If an auto importer sold 50,001 cars, his cars would have 5 percent local content. If he sold 100,001 cars, his local content would go up another 5 percentage points to a total of 10 percent, and so on. The local-content requirement would reach a maximum of 50 percent when annual sales reached 500,001.

Such a program, we believe, could be implemented immediately, with one-fifth of the appropriate percentage applied right away and increased over the next five years until it reached the proper amount required by sales volume. This would give importers enough lead time to reach the required local content.

We would much prefer that all of the imports would accept this formula voluntarily or, at the very least, work from this as a benchmark.

What we fear is that the government will become involved and produce a complex "solution" that will turn out to be a problem all its own.

If what surfaced at the NADA convention is any indication of what lies ahead, there is going to be too much hotheadedness involved in sorting out the situation. We saw a lot of this—on both sides—at the NADA convention.

The issue must be defused and an equitable solution must be reached. There is not much time left.

AUTOMOTIVE NEWS, February 18, 1980.

APPENDIX C

## 1983: The Over-rated Auto Sales Recovery

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In calendar 1983:

- Domestic car sales totalled 6.8 million units, 18% above 1982's 5.8 million but 26% behind 1978's 9.2 million rate.
- Imported cars were up 7% from 1982, but their share fell from 28% to 26%. The Japanese share was 21%, versus 23% in 1982 but only 12% in 1978.
- **Overall, sales of new domestic cars and trucks recovered only 1.51 million units (or 29%) of the 5.17 million-unit 1978-82 sales drop.**

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### Calendar Year Sales and Shares in the U.S. Automotive Market

| | | | | Change | |
|---|---|---|---|---|---|
| | 1983 | 1982 | 1978 | 83/82 | 83/78 |
| Domestic Cars | 6,795,302 | 5,756,658 | 9,159,815 | +18.0% | -25.8% |
| Imported Cars | 2,385,613 | 2,222,214 | 1,999,915 | + 7.4 | +19.3 |
| | (26.0%) | (27.9%) | (17.9%) | | |
| Japan | 1,915,623 | 1,801,481 | 1,355,886 | + 6.3 | +41.3 |
| | (20.9%) | (22.6%) | (12.1%) | | |
| Europe | 469,990 | 420,733 | 644,029 | +11.6 | -27.0 |
| | (5.1%) | (5.3%) | (5.8%) | | |
| Total cars | 9,180,915 | 7,978,872 | 11,159,730 | +15.1 | -17.7 |
| Domestic Trucks | 2,624,071 | 2,151,768 | 3,920,983 | +21.9 | -33.1 |
| Japanese Trucks | 463,515 | 407,450 | 334,918 | +10.2 | +38.4 |
| | (15.0%) | (15.9%) | (7.9%) | | |
| **Total Trucks** | 3,087,586 | 2,559,218 | 4,255,901 | +20.6 | -27.4 |
| Domestic Total | 9,419,370 | 7,908,426 | 13,080,798 | +19.1 | -28.0 |
| Imported Total | 2,849,128 | 2,629,664 | 2,334,833 | + 8.4 | +22.0 |
| Japan | 2,379,138 | 2,208,931 | 1,690,804 | + 7.7 | +40.7 |

APPENDIX D

## THE AUTO INDUSTRY

Sales of domestic new cars have been running at an annual rate of roughly 8 million and they are expected to remain at that rate for the rest of the year. Sales in the first four months come 5.5% short of sales in the same four months of 1978. However, in 1978, sales took off after April and totalled 9.2 million for that year. Domestic truck sales are also running deceptively close to 1973 levels. As in cars, sales of trucks really took off starting in May of 1978 but they are not expected to do so this year.

It is striking that U.S. car and truck output in the first three months of 1984 trailed 1978's first quarter by only 6%, yet there were 170,000 — or 23% — fewer hourly auto workers than in 1978. Moreover, since production in the U.S. in the January-April period was at an annual rate of 12.6 million vehicles, compared to expected 1984 full year sales of only 11.3 million, some decline in employment is likely in the months ahead, as output settles down to being more in line with sales.

The voluntary restraints on Japanese car imports are clearly binding, at long last. So far in 1984, the import share stands at 22%, still well above its 18.8% 1978 share, but down significantly from the 26-28% range that prevailed in 1980-83.

January-April Retail Auto Sales
and Employment in the U.S.

| | 1984 | 1983 | 1978 | Change | |
|---|---|---|---|---|---|
| | | | | 84/83 | 84/78 |
| Domestic cars | 2,715,700 | 2,036,837 | 2,873,780 | +33.3% | - 5.5% |
| Japanese Cars | 575,018 (16.5%) | 624,913 (22.2%) | 451,175 (12.7%) | - 8.0 | +27.5 |
| European Cars | 188,782 | 147,387 | 214,529 | +28.1 | -12.0 |
| Imported Cars | 763,800 (22.0%) | 772,300 (27.5%) | 665,704 (18.8%) | - 1.1 | +14.7 |
| Total Cars | 3,479,500 | 2,809,137 | 3,539,484 | +23.9 | - 1.7 |
| Domestic Trucks | 1,150,340 | 788,019 | 1,247,737 | +46.0 | - 7.8 |
| Japanese Trucks | 182,981 (13.7%) | 130,420 (14.2%) | 101,529 ( 7.5%) | +40.3 | +80.2 |
| Total Trucks | 1,333,321 | 918,439 | 1,349,266 | +45.2 | - 1.2 |
| Total Domestic | 3,866,040 | 2,824,856 | 4,121,517 | +36.9 | - 6.2 |
| Total Imported | 946,781 | 902,720 | 767,233 | + 4.9 | +23.4 |
| Total Japan | 757,999 | 755,333 | 552,704 | + 0.4 | +37.1 |
| Grand Total Sales | 4,812,821 | 3,727,576 | 4,888,750 | +29.1 | - 1.6 |
| Hourly employment at U.S. auto companies, including VW, Nissan & Honda (March): | 565,000 | 481,400 | 735,000 | +83,600 | -170,000 |

APPENDIX E

## Major (over 500 Jobs) Big Three U.S. Automotive Plant Closings

Nineteen Big Three plants remain closed (many more are being operated on a sharply lower-volume basis); only two (Fremont and Pico Rivera, the latter in a new industry) are currently scheduled to reopen. However, of the other seventeen all but two could be reopened. Of the fifteen reuseable plants, three are at present configured for car/truck assembly and twelve for stamping, casting, or component manufacture.

| | Jobs* | Status as of May 1984 |
|---|---|---|
| **CHRYSLER** | | |
| Hamtramck, Michigan | 5,600 | Demolished |
| Lynch Road, Detroit | 5,000 | Stripped |
| Warren, Michigan (RVs) | 2,000 | Mothballed |
| Detroit, Universal, Detroit | 1,100 | Mothballed |
| Lyons Trim, Michigan | 700 | Mothballed |
| Scio Electronics, Michigan | 600 | Mothballed |
| Cape Canaveral Electronics, Florida | 500 | Mothballed |
| Huber Avenue, Detroit | 2,400 | Mothballed |
| Fostoria Iron, Ohio | 700 | Mothballed |
| Vernor Tool and Die, Detroit | 700 | Mothballed |
| **FORD** | | |
| Mahwah, New Jersey | 4,800 | Mothballed |
| San Jose, California | 4,100 | Mothballed |
| Los Angeles (Pico Rivera), California | 2,300 | Sold |
| Flat Rock, Michigan | 5,000 | Mothballed |
| Aluminum Casting, Sheffield, Alabama | 1,100 | Mothballed |
| **GM** | | |
| Colt Road Stamping, Cleveland | 2,800 | Mothballed |
| Fremont, California | 2,600 | Will reopen |
| South Gate, California | 2,600 | Mothballed |
| Conner Avenue Stamping, Detroit | 1,200 | Mothballed |

In addition, 250-300 auto supplier plants have been closed over the last several years and about 3,500 dealerships have closed their doors.

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* At time closing announced. Past employment was often much higher.

APPENDIX F

## BIG THREE VEHICLE SOURCING DEALS

|  | Type of Deal | Type of Vehicles | Approx. Number of Units | To Begin |
|---|---|---|---|---|
| **1983 CAPTIVES** |  |  |  |  |
| GM (Isuzu) | Import | Small vehicles | 16,000 |  |
| Ford (Toyo Kogyo) | Import | Small vehicles | 6,000 |  |
| Chrysler (Mitsubishi) | Import | Small vehicles | 138,000 |  |
| **PLANNED: CONFIRMED** |  |  |  |  |
| GM - Isuzu | Import | Medium truck | 1,000 | 1984 |
| GM - Isuzu | Import | Small car | 200,000 | 1984 |
| GM - Suzuki | Import | Small car | 100,000 | 1984 |
| GM - Toyota | Joint venture | Small car | 200,000 | 1985 |
| GM - GM de Mexico | Import | Car pickup | 30,000 | 1984 |
| Ford - Toyo Kogyo | Import | Small car (Mexico) | 130,000 | 1986 |
| Ford - Ford of Europe | Import | Midsize car | 60,000 | 1986 |
| **RUMORED IN-THE-WORKS*** |  |  |  |  |
| GM - Daewoo | Import | Small car | 100,000 | 1987 |
| Chrysler - Mitsubishi | Joint venture | Small car | 200,000 | 1987 |
| Chrysler - Hyundai and/or Daewoo | Import | Small car | 100,000 | 1987 |

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* Also rumored is a U.S. Toyo Kogyo assembly plant — Ford's Flat Rock, Michigan facility is often mentioned — producing 260,000 units per year by 1987, half for Mazda dealers and half for Ford dealers.

APPENDIX G

## FOREIGN SOURCING

**Partial List of Known Commitments By Major U.S. Automobile Manufacturers to Purchase Foreign-Made Major Components For Use in Domestic Nameplate Vehicles**

| | Component | Source | Approximate Number | Delivery Beginning |
|---|---|---|---|---|
| GM | 2.8 liter 6 cyl | GM de Mexico | 400,000/year | 1982 |
| | 2.0 liter 4 cyl with transmission | Isuzu (Japan) | 100,000/year | 1981 |
| | 1.8 liter diesel 4 cyl | Isuzu | Small numbers | 1981 |
| | 1.3 diesel 4 cyl | Isuzu | N.A. | 1983 |
| | 1.8 liter 4 cyl | GM de Brazil | 250,000/year | 1979 |
| | THM 180 Automatic transmission | GM Strasburg (France) | 250,000/year | 1979 |
| | Manual transmissions | Isuzu | 200,000/year | 1981 |
| Ford | 2.2 liter 4 cyl | Ford-Mexico | 400,000/year | 1983 |
| | Diesel | Toyo Kogyo (Japan) | Small numbers | 1983 |
| | 2.0 liter 4 cyl | Toyo Kogyo | 100,000/year | 1982 |
| | 2.3 liter 4 cyl | Ford de Brazil | 50,000/year | 1979 |
| | 2.3 liter 4 cyl | Ford-Mexico | N.A. | 1984 |
| | Manual & automatic transaxles | Toyo Kogyo | 500,000/year | 1980 |
| | Aluminum cylinder heads | Europe, Mexico | N.A. | 1980 |
| | Accessory Motors | Ford-Singapore | N.A. | 1984 |
| | Electronic Engine control devices | Tashiba | 100,000/year | 1978 |
| | Ball Joints | Musashi Seimibu | 1,000,000/year | 1980 |
| | C3 transmissions | Ford-France | 75,000/year | 1982 |
| | Hummer transmissions | Ford-Germany | 18,000/year | 1979 |
| | Tremec transmissions | Mexico | 96,000/year | 1971 |
| | Trim and windshields | Mexico | More and more | 1982 |
| Chrysler | 6 and 8 cyl engines | Chrysler de Mexico | 100,000/year | 1982 |
| | 2.2 liter 4 cyl | Chrysler de Mexico | 200,000/year | 1981 |
| | 2.6 liter 4 cyl | Mitsubishi (Japan) | 200,000/year | 1981 |
| | CV joints | Mitsubishi | N.A. | 1983 |
| | AC compressors | Mitsubishi | N.A. | 1982 |
| | Wiring harnesses | Chrysler de Mexico | N.A. | 1983 |
| AMC | Car components and power train | Renault in France and Mexico | 250,000/year | 1982 |
| VWA | Radiators, stampings Rabbit | VW de Mexico | 100,000/year | 1979 |
| | 4 cyl engines | VW de Mexico | Small numbers | 1982 |

N.A. = Figures not available

APPENDIX H

**Automotive Trade (excluding Canada), by Type of Product**
($ million)

| | | 1964 | 1968* | 1973 | 1978 | 1980 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|
| Total** | Exports | 2,383 | 1,283 | 1,892 | 5,262 | 7,092 | 7,100 | 4,921 |
| | Imports | 712 | 1,807 | 5,449 | 14,731 | 19,464 | 20,853 | 25,271 |
| | Balance | 1,671 | -524 | -3,557 | -9,469 | -12,371 | -13,753 | -20,350 |
| Passenger Autos | Exports | 270 | 118 | 215 | 956 | 884 | 517 | 386 |
| | Imports | 560 | 1,433 | 3,716 | 9,583 | 12,877 | 14,392 | 17,067 |
| | Balance | -291 | -1,315 | -3,501 | -8,627 | -11,993 | -13,875 | -16,681 |
| Trucks & Truck Tractors | Exports | 372 | 170 | 203 | 920 | 1,143 | 1,264 | 754 |
| | Imports | 7 | 3 | 276 | 1,225 | 1,830 | 1,495 | 1,764 |
| | Balance | 366 | 167 | -73 | -305 | -687 | -232 | -1,010 |
| Motor Vehicle Parts | Exports | 1,653 | 858 | 1,246 | 2,484 | 3,883 | 4,259 | 3,323 |
| | Imports | 123 | 329 | 1,376 | 3,768 | 4,573 | 4,587 | 6,028 |
| | Balance | 1,530 | 529 | -130 | -1,284 | -690 | -328 | -2,705 |

* first year of a deficit in overall auto trade
** total includes buses, special purpose vehicles and snowmobiles in addition to passenger cars, trucks and parts

Source: International Trade Commission

Note: Due to rounding, figures may not add or subtract as shown

APPENDIX I

## Treatment of Japan by Other Major Auto-Producing Countries

| | Local Content By Law | Local Content In Practice | Local Production of Japanese Cars and Trucks | Tariff | Treatment of Japan |
|---|---|---|---|---|---|
| Australia | Yes | | Yes | 35-57% | |
| Belgium | | | | 10.8%[3] | Japan's voluntary export restraint (VER) holds its share to 20% of Belgium market. |
| Brazil | Yes | | Yes | 185-205% | |
| Canada | | | | | VER around 20% |
| France | | Yes[2] | | 10.8%[3] | Customs prevents entry of more than 3% of French market. |
| Germany | | | | 10.8% | VER at 10% of market |
| Italy | | Yes[2] | Yes | 10.8%[3] | Official quota of 2,200 Japanese cars |
| Mexico | Yes | | Yes | | |
| Spain | Yes | | Yes | 68% | |
| U.K. | | Yes[1] | Yes | 10.8%[3] | VER at 10-11% |
| U.S.A. | | | Yes | 2.7% | VER around 20% |

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[1] While holding Japanese companies to less than 11 percent of their market, the U.K. has negotiated for government-owned BL, Ltd. to build Honda Acclaims under license. According to Nissan, pressure from U.K. Prime Minister Thatcher led to its decision in early 1984 to assemble 24,000 cars a year there - all to be counted against Nissan's U.K. import quota.

[2] France and Italy stopped treating British-assembled Hondas as Japanese imports subject to their stiff quotas only after they achieved the 60 percent European content sufficient for treatment as an EC product.

[3] Value-added taxes applied to tariffs raise their effective rate to 13-14 percent.

APPENDIX J

## Notes to Accompany Chart 6

- It is estimated that the U.S. "Big Three" have about 95% domestic content.
- AMC/Renault now has about 80% domestic content.
- Volkswagen says that it has about 70% domestic content in their "Rabbit" line made here today and 40% domestic content after its imports are averaged in.
- Foreign companies without production here already have 6% content on the basis of their expenses here, e.g., sales staff, freight, advertising, and property taxes.
- Honda has an Ohio plant moving toward 50% U.S. parts with just a one shift operation. Honda produces a third of its U.S. sales here, raising its content ratio by 17 points to 23 percent. Honda plans to build nearly 300,000 cars a year in Ohio by 1986. If those cars have, say, 60% domestic content, they will raise Honda's overall U.S. content to 50% — 6% non-production expenses, plus 44% (i.e., 60% of 300,000 as a share of its total 1983 U.S. sales of 401,000) — which would exceed the 40% needed for compliance at 1983 sales levels.
- Nissan (maker of Datsuns) plans to produce 240,000 cars and trucks in Tennessee, or about one-third of its level of sales last year. If those have 60% domestic content by 1987, that whould raise Nissan's U.S. content 20 points.

APPENDIX K

## Rights and Wrongs in the CBO Analysis of Auto Content

The economic analysis of domestic auto content done by the Congressional Budget Office[1] (CBO) supports the UAW conclusion that it would make the difference of over one million jobs in the U.S. economy by 1990. The second and more plausible of the two scenarios studied by the CBO found an earlier version of the legislation would result in a substantial U.S. jobs gain by 1990: 520,000, of which 80,000 would be in the auto industry. However, three naive assumptions that made the CBO's job estimate come in on the low side.

### Naive Assumption #1: Share of imported vehicles would not rise in any case

CBO understates the job impact of content by assuming that imports would comprise only 25 percent of the U.S. market in the absence of the legislation. Most auto industry experts at the time and since have projected far higher import shares for the U.S. in the absence of government action. For example, the industry experts at the Department of Commerce predicted imports in the 35 to 40 percent range by the end of the decade.[2]

### Naive Assumption #2: Bill would not reduce imports of auto parts

CBO also underestimated the positive job effect of content by failing to consider the restraint on auto parts imports and/or stimulus to export parts. Every survey of auto company executives and outside industry experts predicts a massive increase in such imports if the U.S. government fails to act. With net imports of both parts and vehicles counted together, the U.S. companies would surely bring in more than ten percent of their U.S. sales in coming years. Yet the CBO job estimates fails to consider the beneficial constraint that content legislation puts on those imports.

### Naive Assumption #3: Foreign auto companies would invest little here

The CBO assumed that foreign auto companies would not make substantial investments here in an attempt to maintain their sales levels here. They assumed that those companies would buy a few parts here and accept a ceiling of 250,000 on their sales here. They concluded that neither Toyota nor Nissan would build vehicles here, oblivious to the fact that Nissan was nearing completion of its full-scale assembly plant here and Toyota's talks with GM had begun. While the CBO believed that no foreign company would build engines here, Honda has announced that it will do just that next year.

The CBO has often been cited for its other scenario that predicted a slight negative effect on jobs. However, this scenario entailed total retaliation against U.S. exports by countries whose exports had been limited. The companies faced with the most difficulty in meeting the content levels while maintaining sales here are based in Japan. When other countries have imposed limits and conditions on the import sales of those companies, they have complied and Japan has not retaliated. In fact, Japan's imports from those countries has continued to grow.

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[1] CBO, "The Fair Practices in Automotive Products Act (H.R. 5133): An Economic Assessment" and revised summary analysis submitted to the House Ways and Means Subcommittee on Trade, September 23, 1982.

[2] U.S. Industrial Outlook 1983.

APPENDIX L

## Auto Price Hikes Trail Inflation

Despite repeated statements to the contrary, when rebates and quality changes are taken into account and when considering a constant mix according to size and other characteristics, **since 1978 price hikes for both domestic and imported cars have been extremely moderate,** consistently below overall inflation. This has been particularly true in the case of small cars: the restraints have been accompanied by increased small car competition among domestic producers.

| | | Change in CPI-U | |
|---|---|---|---|
| | | New Cars | All Items |
| | 3/78 - 3/79 | 7.6% | 10.3% |
| | 3/79 - 3/80 | 8.0 | 14.6 |
| | 3/80 - 3/81 | 4.2 | 10.5 |
| (1st restraint year) | 3/81 - 3/82 | 6.3 | 6.8 |
| (2nd restraint year) | 3/82 - 3/83 | 3.5 | 3.6 |
| (3rd restraint year) | 3/83 - 3/84 | 3.0 | 4.7 |
| (Since restraints) | 3/81 - 3/84 | 13.3 | 15.9 |

This is not to say that the U.S. companies shouldn't exercise price restraint and even cut prices on some models. Their high profits and the incomplete sales recovery both suggest they should.

Allegations that enactment of S. 707 would send prices soaring are based on the erroneous assumption that the law would function as a tight, rigid quota, rather than a flexible inducement to compete with more investment.

APPENDIX M

## U.S. Auto Industry Shows High Productivity Growth

Productivity growth in the auto industry has proceeded at a healthy 3.5 percent clip since the late '50s, sustantially higher than the 2.7 percent rate attained by the overall manufacturing sector. This is in spite of the all-to frequent cyclical downturns suffered by auto.

Even as the current slump deepened and output (corrected for mix and quality changes) fell an additional 2 percent, the motor vehicle and parts industry was able to show an 8.9 percent increase in productivity from 1980 to 1982. That remarkable performance attests to the competence of the workforce as well as to the robust spending on R & D and capital equipment by the domestic auto companies.

The Japanese Productivity Center, an independent Tokyo-based think-tank with researchers representing labor, business, and academia, has published a study on comparative labor productivity between the U.S. and Japan. The study estimates that Japan's auto industry has finally pulled ahead of the U.S., holding a slight — 1% — lead in productivity in 1980. In 1979, the study says, the U.S. was ahead of Japan by 11%.

These figures call into serious question some U.S. studies which show Japan holding a tremendous productivity edge vis-a-vis the U.S. Moreover, productivity changes depend strongly on utilization of capacity. The Japanese catchup from 1979 to 1980 must therefore be put in proper perspective: extremely favorable conditions in Japan, where there was a 15 percent increase in production, coupled with the massive auto crisis in the U.S., where unit output plunged 30 percent.

Although auto production levels continued to be depressed in 1981 and 1982, productivity as measured by BLS' index of output per compensated employee-hour advanced by 3.0 percent and 5.7 percent in those two years, respectively. If the industry can hike annual productivity an average of 4.3 percent under such conditions, we certainly can expect big gains as production volume rises in the recovery.

And we do. While 1983 productivity data aren't out yet, a comparison of 1983 unit output figures with data on work hours suggests a conservative estimate of 10% productivity growth over 1982. That would put the three-year gain over 1980 at an impressive 19.8 percent.

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APPENDIX N

## GATT Questions Should Be Resolved within the GATT Framework

Some have argued that domestic auto content legislation should not take effect until U.S. courts rule whether it may conflict with the General Agreement on Tariffs and Trade (GATT). However, there are several good reasons why the question of the status of the legislation under the GATT should not be referred to U.S. courts.

(1) The GATT provides a mechanism for dispute resolution if one country believes that another country's measure conflicts with the terms of the GATT. First, the GATT requires a period of consultation between the disputing countries. If that fails, then the challenging country may request that a formal panel be appointed to decide the issue.

(2) In contrast to our courts, such panels are composed of experts on the GATT who are mutually satisfactory to the opposing sides.

(3) Administration officials have warned that a possible GATT challenge in U.S. courts could delay implementation of the legislation. However, if exclusive jurisdiction to resolve GATT issues is lodged in the GATT itself, then the U.S. could proceed with implementation of the law to prevent further injury from imports and avoid the harassment of lawsuits in the U.S. courts.

(4) Finally, and perhaps most importantly, the GATT provides a forum in which — if the U.S. law is challenged — the U.S. can counter-challenge against the more restrictive auto trade policies pursued by all other major auto-producing countries. These policies include higher percentages of required content (Australia), very restrictive quotas (Italy) and gentlemen's agreements (U.K. and Germany), and severe customs and inspection procedures (France and Japan). Although the U.S. courts cannot adjudicate with respect to foreign auto policies, the GATT could simultaneously resolve the legal and practical status of all those policies in the same forum.

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16. CBO, "The Fair Practices in Automotive Products Act (H.R. 5133): An Economic Assessment" and revised summary analysis submitted to the House Ways and Means Subcommittee on Trade, September 23, 1982.

The **Chairman**. Thank you very much.

Mr. Kirkland.

## STATEMENT OF LANE KIRKLAND, PRESIDENT, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY RAY DENISON, DIRECTOR OF LEGISLATION; AND RUDY OSWALD, CHIEF ECONOMIST

Mr. **Kirkland**. Thank you, Mr. Chairman.

I have with me Ray Denison, my director of legislation; and Rudy Oswald, our chief economist, is available for any tough questions.

Mr. Chairman, with your permission I would like to file my complete statement for the record.

The **Chairman**. Without objection, it will appear in the record in full.

Mr. **Kirkland**. And I would supplement it with just a few random remarks and observations.

Many times in the past the AFL-CIO has come before congressional committees asking for congressional help to save American industries and jobs. Too often the responses have been too little, too late, or not at all. Year after year, the strong, broad-based industrial machine that was America has been weakened and its workers displaced, not because these industries have become obsolete or its workers less productive, but because these industries have been overwhelmed by imports flooding into our uniquely open market.

The health of the automobile industry is central to the health of the economy as a whole, and its fate can decide whether this Nation recovers from recession and regains its productive strength or slides downward.

The failure to enact this measure, S. 707, would in our view not represent any triumph of free trade, but in fact a surrender to protectionism and to mercantilism, which are the prevailing modes and circumstances in the world today. It would assure, the failure to assure certain minimal levels of domestic content would assure maximum levels, in fact, of foreign car content.

A word about the issue of the consumer and the issue of consumers as a class. The book of Genesis tells us that since the expulsion from the Garden of Eden the prevailing rule under which men and women have had to live is that by the sweat of your brow you will earn your bread. The inexorable law ever since that day, except for a very narrow fringe of fortunate people, has been: no work, no bread. And you do not and cannot serve the interests of consumers by undermining the sources of rewarding work which exists in this country.

I think Abe Lincoln put it best when he said:

> I hold that if the Almighty had ever made a set of men that should do all of the eating and none of the work, he would have made them with mouths only and no hands. And if he had ever made another class that he intended should do all of the work and no eating, he would have made them with hands only and no mouths.

I can name for you no product or commodity, and I have thought about it at great length, that travels in commerce under conditions that in any way could accurately be, all things considered, described as free trade.

Learned gentlemen describe free trade, and there is no free trade. Last year at a press conference a reporter asked me, with respect to trade legislation then pending, a question. He said: Mr. Kirkland, the President last night called for keeping free trade and spoke against this protectionist mood in the country. Are you going to modify in any way or change your policies?

And I responded to that question then with a proposal that I think commends itself to all of those who would purport to follow the principles and doctrines of classical free trade to their proper conclusions. And with your permission, I would simply like to read my response at that time.

The CHAIRMAN. Go right ahead.

Mr. KIRKLAND. In response, I said: Well, I think I may use this occasion to announce my conversion to the principles of Adam Smith, David Ricardo, and John Stuart Mill. I think the arguments for free trade are so convincing that I think it would be nice if we had some, and we ought to really do something about it.

So I am thinking of drafting a bill that will be introduced in the next Congress if I can find a sponsor. So far I have failed. It will be called the Free Trade and De-Protectionism and Anti-Hypocrisy Act of 1983, and it will go something like this:

Whereas, certain practices distort the free flow of commerce and diminish the wealth of nations, and deprive consumers of the benefits of comparative advantage, and are otherwise contrary to national policy,

Now therefore, first: It shall henceforth be illegal for any American corporation or person to engage in a transaction involving a product of which any portion is required to be manufactured abroad because of the existence in another country of a domestic content statute.

Second, it shall henceforth be illegal to engage in a barter transaction with a State trading monopoly. That would be known as the Donald Kendall and Armand Hammer clause.

Third, it shall henceforth be illegal to engage in a transaction involving any product or commodity of which any part of the price or terms is subsidized, directly or indirectly, by the State.

Fourth, it shall be illegal to engage in any transaction involving a commodity the price or supply of which is controlled by an international cartel.

I could go on. Fifth, it shall be illegal to engage in any transaction involving the use of a currency of which the exchange rate is managed or manipulated by a State.

That is only a partial list of the prohibited transactions I have in mind. We will have some definitions. We will say that, inasmuch as discussion of this subject has been poisoned by word pollution, certain terminology must be made standard.

For example, those entities now known as free trade zones—that is to say, locations in certain territories where goods are produced under a restriction that none of them can be imported into the domestic market of the country where they are located—shall hereinafter be known as protectionist zones.

On the enforcement side, the bill will say—and this may require a constitutional amendment—inasmuch as it is commonly understood by those well versed in these matters that considerations of human values and human rights and human standards ought not be treated as relevant in determining the flow of commerce or as criteria affecting economic transactions between nations—that is to say, that all values are fungible—therefore, as a means of enforcement any punitive measure practiced by any trading nation in the world shall be available for the enforcement of this statute.

Therefore, for the first offense the perpetrator shall have his right hand severed at the wrist; for the second offense, 5 years at hard labor at the prevailing wage in a Mexican asbestos plant; and for the third offense, as soon as any necessary treaty arrangements can be contrived, the offender will be sentenced to 10 years in the Gulag.

One added proviso: Any person who, after the enactment of this statute, advocates, condones, engages in, or conspires to engage in the violation of any of these provisions, who is thereafter apprehended in the act of making a free trade speech to the Council on Foreign Relations, to the Aspen Institute, to Bilderberg, to Ditchley, or any other such foreign international or national entity shall have his tongue extracted by heated tongs.

I commend that measure for your consideration.

[The statement follows:]

## STATEMENT OF LANE KIRKLAND, PRESIDENT, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. Chairman, members of the Committee, I appreciate this opportunity to testify on behalf of the AFL-CIO in support of S.707, the Fair Practices in Automotive Products Act.

The AFL-CIO represents more than 13 million workers who are important to our society as breadwinners, consumers, and taxpayers. S.707 is important to them all.

This legislation is designed to ensure that the U.S. remains a viable producer of motor vehicles in the years to come. It will have a positive effect on not only the U.S. auto industry, but also on the many supporting industries related to auto production. Its passage can assure the creation and preservation of hundreds of thousands of jobs in this country. The AFL-CIO urges its speedy enactment.

Over the last two years, Congress has held five separate hearings on this proposal, and the House of Representatives passed a similar bill last year. We hope that the additional hearings held this year will serve to expedite consideration of this measure in this session of Congress. Despite huge auto company profits, and some improvement in auto sales, the employment situation in the industry remains dismal and will worsen dramatically without Congressional action.

Many times in the past the AFL-CIO has come before Congressional committees asking for Congressional help to save American industries and jobs. Too often the responses have been too little or too late or not at all. Year after year the strong, broadbased industrial machine that was America has been weakened and its workers displaced, not because these industries have become obsolete or its workers less productive, but because these industries have been overwhelmed by imports flooding into our uniquely open market.

The health of the auto industry is central to the health of the economy as a whole and its fate could decide whether this nation will recover from recession and regain its productive strength or slide downward.

In each previous post-war recession, the lead of the auto and the housing sector have been keys to overall economic recovery. Therefore, to us, this legislation is of the greatest importance.

America's industrial base is dangerously eroding and with it the country's ability to grow and create and sustain millions of jobs. Reversing the process of deindustrialization requires a national commitment to the rebuilding of our industrial base as the foundation for long-term balanced growth and fulfilling the nation's commitment to a policy of full employment. The jobs of many American workers, not just auto workers, have been affected by massive imports of foreign-made automobiles, trucks and parts. Hundreds of thousands of jobs in rubber, steel, aluminum, glass, textiles, paper, electronics, and plastics have been lost.

Despite the so-called resurgence in the auto industry, there are 170,000 fewer production workers employed today than in 1978. Employment in supplying industries is down by some 300,000.

The impact of this job loss extends to all regions of the country. Many of these workers are no longer taxpayers. Instead, they are receiving unemployment compensation and some are on the welfare rolls. Those few who have managed to find alternative employment have seen their wages drop, their health insurance and pension benefits reduced, and their skills underutilized. This loss of employment and earnings affects all Americans. It is not only a personal tragedy for the unemployed, but it also afflicts all of society by imposing a massive national toll as a financial burden, a tax-loss to the community, lower standards of living, and a reduction in our industrial base and our defense-related capability.

There is a critical need for domestic content laws as provided for in S.707 to reestablish a viable and complete—and competitive—U.S. automobile industry. It is based on the concept that multinational auto companies—U.S., French, German, Japanese—should provide the United States with jobs and production—when they enjoy the advantages of the U.S. market. Legislation is particularly important now as the major auto companies contemplate investment and production plans that will have the effect of greatly increasing imports of small cars and trucks into the U.S. market. One auto analyst cited in a recent article in *U.S. News and World Report*, predicted that by 1988, overseas companies, dominated by Japan, will account for 50 to 55 percent of all U.S. auto sales. U.S. firms would continue to produce for the large car market, but would increasingly act merely as distributors for the rapidly growing small car market. In the absence of governmental action, the basis for this prediction becomes clear by examining the plans being considered and the actions already taken by the major U.S. producers.

U.S.-based auto companies, like much of American industry, earned record profits in 1983. Overall corporate profits grew substantially over 1982 levels and first quarter 1984 earnings are almost 40 percent higher than the same period in 1983. These huge profits could be invested for the future of domestic U.S. industry. While workers' sacrifices have contributed to these profits, they are not even assured continued employment. To date the principal beneficiaries of this wealth have been the stockholders and the executives.

In April, 8.8 million Americans were still looking for work, and another 1.3 million had given up their fruitless search for jobs. The ranks of the unemployed are 3.2 million larger than in 1979.

The paychecks of workers still holding jobs buy 5 percent less than five years ago. While earnings have gone up an average 4.4 percent for non-supervisory workers, those modest increases have been eroded by inflation and higher taxes.

The average pay of executives, on the other hand, increased by 13.1 percent in 1983. According to *Business Week*, the top 25 corporate executives all received over $2 million in pay and bonuses last year, with the Chairman of National Cash Register heading the list with $13.2 million.

In the auto industry, Ford Chairman Philip Caldwell received pay and stock options of over $7 million. At General Motors, five executives each received bonuses of over $1 million, and some 5,800 managers received bonuses averaging $35,000 a year. On the other hand, the Bureau of Labor Statistics reports that the straight time earnings of production workers in the auto industry averaged $12.13 an hour, or $25,230 a year. This remains below the government determined $26,600, needed to support a family of four at a "modest but adequate" standard of living. The workers, who actually produced the profits, are apparently expected to continue their sacrifice.

This notion of sacrifice was regrettably underscored by Ambassador Brock, when ostensibly angered by the huge executive bonuses, recommended that restraints on Japanese auto imports be lifted. The irony here is twofold. First, the lifting of import controls will not punish management. The immediate harm will be felt by production workers through further loss of income and jobs as imports pour into our market. Second, the elimination of restraints will allow and encourage additional foreign production by the U.S. companies.

The issue here is not profit levels, but rather how those profits are used. America's working people want opportunities for progress for themselves and their children. They don't scorn profit, they welcome it. After all, it is their work that created these earnings. What they do seek are jobs in a healthy economy, and fairness in the distribution of income and social benefits. What they can't accept is their government standing idly by while their future is threatened by corporate decisions to transfer jobs and production overseas.

In the case of General Motors, the company has been investing significant capital in its two Japanese affiliates, Isuzu and Suzuki, with the intention of importing close to 300,000 subcompact cars a year into the U.S. market. They have recently concluded a deal with Toyota to assemble 200,000 cars a year in California with 50 percent Japanese content. Consideration is being given to the importation of more than 50 thousand subcompacts from its Korean affiliate, Daewoo, and the company will soon be importing 50 thousand light trucks from its affiliate in Mexico.

At Ford, the absence of a national auto policy has generated similar investment decisions. Earlier this year, the company announced an investment of some $500 million, more than a quarter of their entire 1983 earnings, to construct a plant in Hermosillo, Mexico. This factory will assemble a subcompact car from components supplied by Toyo Kogyo, a Japanese company partly owned by Ford. The new car will be sold in the U.S. market.

Chrysler is currently considering various plans to build a small car with Mitsubishi. It remains unclear whether the new car will be produced in the U.S., Mexico, or Korea. Various plans are also being considered to replace the now domestically produced Omni and Horizon with a new subcompact car. U.S. production is not assured.

These investment plans and decisions all emphasize the need for a coherent national auto policy as is detailed in S. 707.

S. 707 does not stop all foreign sourcing. But the bill does limit the percentage of content that a company can foreign source to stem both the outrush of current U.S. production as well as to mandate foreign company production here. Foreign sourcing already accounts for a great deal of U.S. auto manufacturers' purchases. Unless that trend is reversed, the drastic reduction in U.S. auto jobs and production will continue and ultimately cost the nation its security as well as its technological future.

The provisions of the bill are designed to find a middle way—to assure a viable industry here, without stopping all trade or limiting competition. The American consumer will continue to have a wide choice of motor vehicles of good quality at competitive prices.

The bill requires all companies with annual sales of over 100,000 vehicles to locate some production in the United States, hire U.S. workers and buy auto parts here.

The bill sets a ratio of content, depending upon the level of cars the company sells in the U.S. It would be phased in gradually and predictably over the next four years.

For example, by model year 1987, if a multinational company sold 100,000 vehicles in the U.S., it would have to produce or buy domestic production worth 10 percent of those sales; 200,000, 20 percent; 500,000, 50 percent; 900,000, 90 percent. For any specific level of sales over 100,000, the content requirement is determined by simply dividing sales by 10,000, up to a maximum of 90 percent.

Many countries such as Australia, Brazil, Mexico, South Korea and Spain have domestic content requirements. The specter of foreign retaliation, often raised as an objection to U.S. auto content legislation, has not occurred for these countries. Further, the concept of domestic content requirements, has been accepted in internatinal business transactions for some time. For example, Japan required significant local content in purchasing U.S. designed and produced military aircraft. Similarly, major components of the new generation Boeing 757 aircraft are being built in Japan.

Most countries have more stringent requirements in law or practice than the U.S. for assuring auto production in their countries.

Domestic content laws or other policies, such as high tariffs, quotas, embargoes, subsidies, requirements for auto exports, and informal restraint agreements are all but universal.

The passage of S. 707 creates an opportunity for manufacturers from all nations to sell and produce cars here, employing U.S. labor and providing a multiplier effect on both service and production jobs in this country.

This will benefit U.S. consumers who wish to continue to choose among a variety of cars, U.S. workers whose jobs consist of parts and assembly operations for motor vehicles, and for U.S. business which has a major stake in participating in the expansion, rather than the decimatin of the American auto industry.

For these reasons, the AFI-CIO strongly supports S. 707, a fair bill designed to take automobilies and related parts off the list of endangered U.S. industries. Its passage will have a positive ripple effect on the U.S. economy.

The CHAIRMAN. Jack?

Senator **Danforth**. The only reason you have not found a cosponsor is that you have not asked Senator Long yet. Gentlemen, I have one question and then I am sorry to say I must leave. But there has been testimony already, and I think there will be from Mr. Penner when he testifies, that this bill, if enacted, will call for sacrifices on the part of the people of this country. The effect of the bill is, people who want to buy automobiles will pay more for the automobiles than they otherwise would, and that at least some working people in America will lose their jobs.

This may create some jobs for the United Auto Workers, but it will cost jobs of other people. Now, my question to you is this: If we in Congress are to pass a bill which asks for sacrifices from the American people, what sacrifices, if any, should be made by: First, the auto companies, and second, the autoworkers, to create a healthy auto industry?

Mr. **Bieber**. If I could respond to that question. Let me first of all point out that we are very proud of the history of the United Auto Workers. We have repeatedly stepped up to our responsibility of being a realistic and a responsible union.

I point out, not going to ancient history, but let me just go to 1982. In 1982 the auto companies were indeed in big trouble, and we responded. It was not easy; it was painful. We responded. We gave up 9 paid days off. We delayed COLA payments. We wiped out an annual improvement factor that was due the workers under the then-existing contract.

Outside analysts at the time put a price tag on that concession of somewhere near $3 billion. Since it was based upon hours worked, I would submit it would probably be much closer, if not in addition to, $4 billion. I also want to point out that the autoworkers have not had a wage increase since 1981. There has been no real wage increase since 1979.

I heard this morning the statement made about umpteen classifications that supposedly exist in plants, and they do in some. But I would hasten to point out, Senator, not only to you but to the other members on this panel, that we have been doing many things in the auto plants. You can go to Senator Riegle's home town of Flint, MI. It is a good example.

In the Buick complex they put in a new system called pay for knowledge, in which there are very, very few classifications. The same is true in the Shreveport, LA, plant, in Senator Long's home State, where the S-10 and S-15 trucks are built—new concepts.

We did a lot of that following the 1982 contract negotiations, and I assure you that, as the President of the United Auto Workers, when we go to the bargaining table in 1984, just a few months from now, we will practice the same responsibility that we have in the past.

Now, let me just once again point out that some of the figures I heard this morning I really have difficulty putting together when we talk about the jobs lost. I heard someone mention the teamsters. Let me point out that S. 707 and our thrust has been not to build a fence around this country. I do not want to do that at all. I want the Japanese auto companies to come here and invest in plants here and produce vehicles here, be competitive to what we call the domestic companies now.

But I would point out that those same teamster truck drivers who move those cars from the docks will be moving those cars from the assembly plants here, et cetera.

Mr. Chairman, I know that the dock workers in your State are concerned. I would hope that this bill would lead to, and I believe it would, increased export business for the auto industry, that would also provide jobs for those dock workers.

But last but not least, I have to underscore again, if we do not do something we are going to lose a total segment of our auto production capability here and 500,000 jobs, not autoworker jobs, everyone's jobs, the whole gamut, are going to be lost. And someone has to tell me where we begin to replace those jobs with good paying jobs.

Senator DANFORTH. Mr. Chairman, I am afraid I did not hear the answer to my question. The question is, if the American people are going to be asked to make an economic sacrifice by the passage of this bill, if consumers are asked to pay more money for a car, and if workers in other industries are going to lose their jobs as a result of it, what contribution, if any, should be made by the auto industry and those who are employed by the auto industry for the health of the industry?

Mr. BIEBER. I think the first thing that ought to be a major attempt is to restrain and reduce prices of the automobiles. And again, I am going to be sitting at the negotiating table in a few months. It is pretty hard for me to sit here without the other party at that table and begin to unfold what will happen in those negotiations, Senator.

I tried to point out, and I think you know, the record of the autoworkers union. It has been a responsible union, and I repeat again, we will be responsible when we go to that table this fall.

Senator DANFORTH. Mr. Kirkland.

Mr. KIRKLAND. May I add to that. In a broader sense, I think there are two industries in this country that are linchpins of the whole economy, construction and the auto industry. I believe the figures are that between those two industries, directly and indirectly, something like one out of every three jobs and sources of income of this country depend.

And when they go down the chutes, the shock waves reverberate throughout the whole economy, and I do not believe anyone in this country will be better off if the bottom drops out of the auto industry or the construction industry again, as it did beginning in 1981.

And although I question the proposition as to whether you can say that the people as a whole will have to sacrifice for the salvation of a basic industry, as to what sacrifices labor is prepared to make for the national interest, I think our record speaks for itself.

And I would recall to you the period during the high inflation years of the recent past. We were called upon by at that time President Carter to cooperate with wage restraints. We entered into discussions in which we said, we are prepared to go as far as anyone else in this country in working for the national interest and in sacrificing for the national interest. We will walk with anyone one mile if they will go with us. We will go with them two if they will go with us.

We have to have a system that assures that sacrifice and commitments are productive of the promises that were made as to their effects and would not be simply wasted. We negotiated with that administration an instrument known as a national accord, and we would be happy to introduce that into the record.

I think the logic of it and the commitments in it stand up well today, and in that document we said there was a basic principle. We were prepared to share an equity of sacrifice and participate in the steps needed to assure equity of sacrifice, and we would do our part. But we wanted certain basic principles to be understood.

One is, if anyone was to be exempt from sacrifice in this country it should be the underprivileged, those at the bottom of the ladder who had nothing left to sacrifice, and specific measures would be taken to be sure that that principle held true. And that was the basis on which we went into that undertaking.

And we participated in a wage policy committee where we voluntarily accepted wage restraints, and I want you to know that we never broke that commitment. We lived up to it, and no one has ever suggested that we did not live up to it.

We then proposed as a furtherance of that undertaking and in further pursuit of it, some of you may recall, the establishment of a tripartite reindustrialization program, under which we committed ourselves to sit down and work out approaches to the rescue and reconstruction and rebuilding of these vital industries, under which we would make commitments that we would obligate ourselves to live up to as long as the other parties and the other beneficiaries and the other interests also put something on the table. We said at that time we are prepared to do that at any time.

Senator DANFORTH. Let me say in response to both of you, I think when you are before the Congress asking for a bill to be passed you are at the table. You are asking us to do something which will have a concrete effect, and I think a negative effect, on a lot of people in this country. And therefore my hope is, before we proceed to markup of this bill we could have a concrete view of exactly what steps should be taken throughout the auto industry.

I am not myself a fan of industrial policy. I do not like the idea of the Government sitting around trying to make deals with people. I do not think it is a good course for us to follow. I do not think we have the brains in this country to pick winners and losers.

But that is, I think, inherent in industrial policy. If we are going to make such a deal then we have got to find out what is brought to the deal by all the parties to it. And I do think before we proceed to markup we should have a fairly specific notion of what both the auto industry and the auto workers intend to bring to the table for the sake of the future of this industry.

Mr. BIEBER. If I might add, Senator, to what I said previously. We supported former President Carter's tripartite proposal. We sent a letter to then President elect Reagan in December of 1980 suggesting the tripartite approach be continued.

Lee Iacocca made a speech in Detroit where he pretty much reiterated the same proposal. I released a statement yesterday and I will say it for the record here, that if the Government and the industry is ready for a meaningful auto policy you can count on the UAW being willing to come to that table.

The Chairman. Mr. Bieber, one of the issues that has been touched today one the wages that your members make. Senator Chafee was here this morning. He cited a figure of $22 with fringe benefits, twice as much as his constitutents who make Cross pens.

What is the average wage of an auto worker? You can separate it into the basic wage and then the fringe benefits if you want.

Mr. **Bieber**. I suppose you can get almost any figure you want, depending upon what ingredients you put into arriving at that. Let me give you the figure that I have used, which I think is the most concrete figure we can come up with. It is probably not the best from a negotiating standpoint that I have ever taken.

It is probably high, but if you take an auto assembler in the big five—well, Ford, General Motors and Chrysler—you are talking about roughly $12.50 an hour, minus tax. That is the take-home wage. That does not include the fringe benefits, of course.

You hear all the arguments about measurement with the Japanese measurement and someone else. It is very difficult to measure that, because you have a lot of different ingredients when you begin to talk about the benefits. If you are talking—you do not have to go that far.

Just go to Canada, where you are talking about a country that has national health insurance. We do not have to negotiate that. We do not have to include that in fringe benefit costs.

Now, that $12.50 comes down considerably when you begin to move in the auto parts supplier operation and so on.

The **Chairman**. That figure is not far off what the Bureau of Labor Statistics calculates. BLS figures for ten different industries show basic pay for the steel workers at $13.45, auto workers at $13.30, chemical workers at $11.68, farm equipment workers $10.70, electronics workers at $8.57, saw mills workers at $8.57, and so on.

I am not here to argue whether those statistics are exact or not, but they are normally pretty accurate. I think the argument is being made that the reason these jobs are going overseas is that your wages are too high. I practiced labor law for 5 years.

I represented employers and had a high regard for the union negotiators I bargained with and figured it was their job to represent their members and they were going to get for their members what they could, and that was their job, that was their constituency.

But the argument is made we cannot compete in this country because your wages are too high.

Mr. **Bieber**. First of all, let me make a correction. It is $12.30 and not $12.50.

The **Chairman**. OK.

Mr. **Bieber**. Let me point this out. I make no apologies for the fact that the auto workers have good wages. But you also have to understand that the auto workers work in an industry which has been the highest in productivity of any industry.

We have the argument always, the measurement between the auto workers' jobs and the rest of manufacturing in this country. Let me just make my point. Productivity has increased 50 percent more in the auto industry than all manufacturing over the last 20- to 25-year period.

So if you look at really the base wage—and I think one of the comparisons I have seen with the Japanese, you are talking really $9 an hour in base rates, as opposed to about $11 an hour here. You have to recognize, as I said before, when you begin to put all of the other ingredients into the basket it is very difficult.

I was in Japan 3 weeks ago and I discussed this at great length with my counterparts in the JAW. In Japan a worker receives housing.

The CHAIRMAN. They have extraordinary fringe benefits in Japan. I know of no industry here that can match them in terms of benefits.

Mr. BIEBER. But the difference is, when we start talking about comparisons of wage rates, what weight is given to those fringe benefits? Here I have to sit at a table and negotiate insurance and many other items that are part of a social program in Japan or Germany or other countries, which are not costed into those high figures that you talk about here.

The CHAIRMAN. Interestingly, in Japan they are. I have seen a comparison of the fringe benefits. They have higher fringe benefits than we do. We are much more comparable to Europe.

I want to ask about the comments in your written statement that the U.S. auto companies have no particular ties to production in the United States for this market. They have substantial production facilities abroad and are prepared to produce for this market wherever they find it more profitable.

It seems to be mostly in Japan. I have not heard many cases raised of the American manufacturers going to Europe for the purpose of manufacturing cars to send here; is that correct?

Mr. BIEBER. Japan is the major one now, but you have Korea, with the announcement of a huge investment on the part of General Motors and its affiliate there, Daewoo. They want to now import 100,000. That is the starting off figure from Daewoo.

But I also want to point out, Mr. Chairman, for the benefit of this entire panel that you have to look beyond just the cars that are assembled and shipped in. You have to look at the auto supplier jobs that are on the verge of being lost, of going offshore.

It is very critical at this point. That is why I cringe when I hear the talk of doing away with the VRA, because the point I am trying to make is this is an industry which has to make a decision and make it quickly as to what kind of investment they want to make.

I can tell you that Korea is an area we are going to get all kinds of pressures from, and we are going to lose hundreds of thousands of jobs in the auto parts field if we do not do something.

The CHAIRMAN. Here is the point I want to make, if you can address yourself to it. I assume we are producing these cars in Japan and will produce them in Korea because it is cheaper. If it was not they would not go, would they?

Mr. BIEBER. There is no question. They do not have to go that far. They could go to Mexico or Brazil, Senator.

The CHAIRMAN. If we require them to produce the cars here, will that not make the price of the cars go up? I assume it will be more expensive to produce them here or they would produce them here now.

Mr. **Bieber**. As I tried to point out in my testimony, as I have said to many people here over the course of the last several months, I cannot argue that if what we want to achieve is following the lowest common denominator of where we can get a car built or part of a car built, today it keeps shifting. At one time it was Japan. Now it is Mexico, Brazil, and Korea.

My point is, if we let all of these jobs go offshore we have to make a basic decision of what we are going to do in America. We can not continue to have the type of living standard I know you and I both want for America if we are going to let this basic industry leave these shores.

I have said many times, multinational industries have no flag; they will go wherever they can get it done today for the cheapest dollar. But that is not the answer for America's future. If we change that one, we are all lost.

The **Chairman**. My time is up, but I want the record to show that I drive a Buick and I just bought one of those new Chrysler vans.

Mr. **Bieber**. I appreciate it. Great car, good quality.

Senator **Riegle**. Let me say, good for the chairman. We are very pleased that that is the case.

Senator **Ford**. What interest rate did you have to pay?

Senator **Riegle**. My microphone was not on. I just want to congratulate the chairman for owning and driving two American cars.

I appreciate your comment about the concern you have for the dock workers in the State of Oregon. I share that concern. I am concerned about all workers in all lines of work. But if we could have those dock workers at work loading American products on those ships and sending them overseas, rather than unloading foreign products coming into the United States, I think they would be just as well off. The country would be much better off if we were actually producing the goods here and shipping them abroad rather than the other way around.

That issue is one of the fundamental issues in this debate, which I think has been very illuminating today, in large part because of the Chairman keeping things on track here.

But in essence, one of the new concepts we must acknowledge involves looking beyond a single worker and a single industry. We are talking about the degree to which we create and hopefully are adding to our national wealth whether it stays in the country or leaves the country.

There is a big difference between those two things, because if it stays in the country our national wealth and income continue to circulate. It never stops, because auto workers earn a wage, from which they buy groceries, they make house payments, they pay taxes, they send their kids to school, and they do everything that everybody does.

They spend their income, and that creates jobs and income for other people, and that creates additional tax revenues coming into the Government, and the dollars never stop. They keep moving if they stay in our society.

If they leave our country and go abroad and what we get in exchange is an object, a car, even if it is well built, or a computer or an airplane or whatever it happens to be, that object has a certain useful life, but over a period of time it will wear out and be gone, and there is no residual economic wealth or strength in that product once its useful life is exhausted.

Whereas the dollars that have gone out of the country, have an altogether different kind of meaning. That kind of financial strength allows countries to build themselves up over a period of time.

What I am struck by, Mr. Chairman, is—I used the analogy earlier in my opening statement that we have a trade war going on and we are losing, and I think in effect what has happened is we are into a different kind of war. World War Three is going on.

It is going on as a trade war, and at the present time we are losing it. This war has enormous implications for the future in terms of our national wealth, the ability to meet our financial commitments, living standards, where the jobs will be, what kinds of jobs they will be, and so forth.

Do we want to count on our sons and daughters working in service industries in the future, either making hamburgers at McDonald's or working at the local cleaners pressing pants or what have you, while Japan, and Korea are building the computers, building the airplanes, building the cars. We have to think about what the implication of that is for the future of our country.

We have to understand the implications of technology transfer and multinational corporations, as you say, carrying in a sense no flag because their job is to drive costs down to the lowest level. So that if something can be produced by a worker in India being paid 50 cents an hour or 75 cents an hour, then commerce will move in that direction. In the absence of any other factor, or any changes, the United States will become increasingly impoverished.

This is a very hard concept for people to grasp because it is a new condition. We have never been here before. We have had this enormous differential of economic strength for a variety of reasons for 200 years, particularly after World War II when other industrial nations were greatly weakened by the war.

Now they have caught up, so we are in a situation today where the world has changed. And yet, I was so struck by the fact that we had the economic panelists at the table and their thinking has not changed with the market realities. They are still back 10, 12, 15 years ago, repeating the same slogans that do not bear any relationship to what we are talking about.

I mean, free trade has disappeared in the world market of automobiles whether we like it or not; and we must adjust to that situation.

Mr. Kirkland, let me ask you this. How important is this legislation in your view to working people and where would it be on the priority list of the AFL-CIO?

Mr. **Kirkland**. It is a very high priority item of the AFL-CIO. We regard this question of the disappearance of the essential industrial base of this country as probably the most serious long-run problem we face today. We have been trying to address it as best we can, and we believe that the interest—we have dock workers too, you know.

Senator **Riegle**. Yes, indeed.

Mr. **Kirkland**. And we are as concerned about them as anyone else. But their jobs will not survive the collapse of the broad American economy. The Japanese capacity to export will not survive the collapse of the broad American economy and the disappearance of the jobs that support that economy.

That market depends upon well-paid jobs, and we have the biggest market in the world and the most lucrative market for other countries precisely because of the standard of living that has developed in this country. The attacks on wages and reductions on wages are clearly not the way to solve this problem.

It is self-evident from the fact that the first industries we lost in this country were the ones with the lowest pay. We lost a great share of the textile industry, the shoe industry. We are losing the electronic assembly industry, which is a low-wage industry.

Atari was a low-wage, nonunion establishment, where those production jobs which were sent overseas were not high paid. They were just slightly perhaps above minimum wage. And unless you are going to attempt to compete with the lowest of the low around the world, there is always a country with a lower level of wages with which to pirate and attract plants.

There is another factor, not just wages, the cost of capital. This is becoming increasingly the case, as the requirements for capital investment, with the new robots and the higher proportion of capital investment per man to create a job. The cost of hiring that capital is an increasingly major factor, particularly today with our high interest rates.

And the further advantage that the Japanese have is by their policies they have kept domestic capital supplies of their own available at very low and preferential interest rates. In what is supposed to be a world capital market, that is a rather remarkable achievement.

And there are industries today, in industry after industry, where the cost of hiring the money exceeds the cost of hiring the worker.

There is one other factor. You can lay off the worker, but you are going to have a devil of a time laying off the bank.

Senator **Riegle**. My time is up. I hope to have another round here.

The **Chairman**. Russell?

Senator **Long**. [Nods negatively.]

The **Chairman**. Wendell?

Senator **Ford**. Mr. Chairman, this has provoked a lot of thought, I hope, not only in my mind but in others. There is a mesh here of problems, not just the auto industry, as I see it.

We talk about the balance of trade deficit, and I know the dollars that come back, and I just recall the conversation with the two main individuals in the merger, of So-Cal and Gulf, a $13 billion acquisition, and roughly 50 percent of that acquisition would be borrowed foreign money.

Now, that is just another item that begins to add up to what you two gentlemen are saying. And I think that the basic problem here is to explain it so we can understand it, because you have so many different groups, not necessarily large groups, but groups which are frightened by this, and the scare tactic has been used in order to try to prevent this legislation.

And I do not think that the problem here is going to be local content. I think the problem basically is going to be our ability to export. And I know the flight of companies. I have had to deal with that as Governor, those companies coming into my State, were they blue ribbon or were they just flying away, what do you call it, flying to another place where they might get it a little cheaper, and then they move right on again. That is basically what you are talking about, moving from one country to another.

So Mr. Chairman, I am not going to ask any questions. I just hope that somehow we can put this big picture problem in proper focus, so that we as the American people can solve the problem that is at the root of the need for S. 707.

The CHAIRMAN. Don?

Senator RIEGLE. Mr. Bieber, when you said earlier, if I remember correctly, that the average wage or the wage for the typical worker in one of the big three automakers before fringe benefits would be about $12.30 an hour, is that right? That is the gross pay. The take-home pay after taxes and Social Security would be something less than that.

Mr. BIEBER. That is right.

Senator RIEGLE. Can someone do a quick estimate of how much that amounts to, either per week or say as an annual wage? What kind of an annual wage would that work out to?

Mr. BIEBER. You are talking, quickly off the top of my head, $24,000, $25,000.

Senator RIEGLE. My impression is that the gross pay before taxes and Social Security and so forth is in that range for the typical auto assembly worker, the $20,000 to $25,000 range. And I know that some people think that that is either an unusually high figure, too high a figure, or what have you.

And yet, when you measure that against the cost of living today and the fact that the median price of a new home in the United States last week was $96,000, when you boil that down to take-home pay today, you know, that is not a large sum of money. It is better than a good many other people earn, and that is a fact which I think needs to be readily acknowledged.

But in terms of a working class income or a middle class income, there is often only one wage-earner say in the family and that is the income that may support a family of three, four, or five people. I think we have to sort of view it in that perspective.

But I want to relate it to something else, and it is something I have observed, and that is what is the work being done, beyond the productivity aspects, labor-saving devices, automation, and so forth. The auto workers have been one of the most forward unions in terms of adopting those additional efficiencies in plants and so forth, even at the cost of reducing UAW membership, in order to improve UAW productivity.

These are tough jobs, hard jobs, in difficult fittings, and they take an enormous toll on a person's health. And I want to give you an illustration and I would like you to tell me what you may have in terms of information in that area.

I have noticed that when I stand outside a factory gate to greet autoworkers coming in and out of the plant and I see maybe in the course of an hour, maybe 2,000 or 3,000 workers come through, they come through at all ages. Some are young and recently have entered the work force; others are middle aged in their work career; and some are at the end of a work career.

And what I have noticed in just watching these people come by at random one after another is that it is as if you are seeing one person at different stages in his life. And one of the things I have been struck by is, people who are at the end of a work career look like they have really worked awfully hard and that they have given a lot.

You notice it in terms of their posture. You notice it in terms of the speed with which they move. You notice it seeing the lines in their faces, what their hands look like, and so on and so forth.

One thing I have observed is, whatever the work going on inside—and you are familiar with it and so am I—it is really draining a tremendous amount of strength and energy out of these workers as they invest a lifetime of work in this profession.

And I think you see that in the health statistics at the other end, in terms of the fallout, in terms of people having perhaps shorter life expectancies or a greater array of certain kinds of health problems, because it is noisy, it is physically very demanding, it is dangerous work in many respects.

In other words, if anyone who has never been in an automobile plant thinks this is an easy or a simple job that does not take a lot out of a person in 8 hours, a week or a lifetime of work, my observation has been exactly to the contrary.

These are very tough jobs which demand an enormous amount from a person. Most people come out at the other end with their health not in particularly good shape, from what I have been able to see. And I think that has to be borne in mind when we try to understand what is the meaning of this work.

What can you tell us about this?

Mr. BIEBER. You have given a very good description of an autoworker and a group of autoworkers coming out of the plant. Obviously, you can do that because in your home town of Flint, MI, you have an array of autoworkers, assemblers, parts producers, and so on.

You are absolutely right. I have said it many times: If I could take certain people for a tour of an auto plant or, better yet, if I could put coveralls on them and put them on the good old assembly line for 8 hours a day for maybe just 1 day out of their lifetime, they would have a greater appreciation for the autoworker's job.

It is a tough job. It is physically tough, it is demanding. You realize that each autoworker, as he puts on a particular operation or a particular part, is working on a very, very expensive piece of equipment. So it is not just the physical, it is the mental strain. It is everything else.

We have people in the model shops, for instance, we had a tremendous health problem. Primarily, the rate of cancer was extremely high in those shops. We have worked very hard, the companies have worked, to try to eliminate as best we can those types of problems.

But the autoworker puts in a good day's work. I think a good example of how I view it, Senator, is this. In the days since I left the plant in 1961, I must say I have had some tough days as an international representative, a regional director, a vice president, and, believe it or not, as president of the auto workers today.

When I was back in western Michigan, I was not that far from my home plant. So on some of those days when I thought it was unbearable and I even harbored the silly idea that maybe I should go back in the plant, I just got in the car and drove by the plant, and it was enough to convince me that my day had not been that tough, and I stayed out of the plants.

Senator RIEGLE. There is also the question of the health benefits, where in Japan and, as it was cited, in Canada the health insurance is paid for by the government. They have a national health insurance program, so that the cost of the health insurance does not show up as a cost of production, it does not show up in the product price. So that helps them.

But it is interesting that in industries like automobile manufacturing, which is very physical, where there is a lot of exertion and a certain amount of danger, not just from physical hazards but from carcinogens and various other things in the workplace, that in order to cash in on the health benefits you basically have to get sick.

So that, yes, if you get sick, you in a sense collect from the health benefits. But it is an insurance plan, so that if you are lucky enough not to get sick it is not as if you suddenly get an extra shot of money in your pocket that you can spend that someone else does not get.

Again, I want to see everyone in this country have health insurance, and I think we should have a system where it is provided for all our workers, whether they are working at McDonald's, building computers, or building cars or what have you. But I think that is another factor that it is important for us to note.

I just want to cover one other thing, Mr. Chairman. I do not want to delay my colleagues or you unduly here, but I am struck two things:

One, that if import limitations come off next spring, as Brock said, and the Japanese penetration may very well go from 21 percent of our market where it is now up to 40 percent within a year or a year and a half—and we know they could do that, because they have the capacity in Japan to produce another 4 million cars. It is already in place. They have got no other place they can sell them, so it is logical they would have to sell them here.

In my own mind, it seems that if Japanese penetration went up in the range of 40 percent, we could lose at least a couple of domestic producers. I do not know which ones they would be, but I would think on that reduced domestic buying divided among the number of companies, one or two of those companies would find themselves in serious financial difficulty, and I would think probably at some point they would have to disappear or would find themselves unable to function financially, because the volume over which to spread the costs and continue to invest in product improvements and new models and so forth would just be beyond their capacity.

We saw that in Chrysler. Chrysler ran out of the money, the Government intervened in a special case to allow them to finish a manufacturing cycle.

But it seems to me that one of the things we would see is probably the loss of some domestic companies, and then I think we would probably see unit costs rising. In other words, we would see the cost of an American car getting larger because the volume was shrinking and the fixed costs would be the same. So you would find the American producers in a worse and worse situation in terms of trying to drive the price down by less cost over more units.

And then I am struck by the fact that what would most likely happen then is that the Japanese would continue to drive their prices up as the domestic prices had to go higher, because that has been the record so far. And then finally, if the domestic producers were put out of business totally, Japan would then be in a situation, with any other foreign supplier, to take the prices even higher.

So the notion that somehow or another down the line 2 years, 3 years, 5 years, 7 years, we are going to get very cheap cars from foreign suppliers is nonsense, because their whole approach has to be to figure out how to come in here, take this market over over a period of time, and then drive those prices as high as they can. They have every incentive to want to take as much of our wealth and put it in their society, so they have a better living standard, as they can get away with.

So do you see that kind of flow of events here if these import limitations or domestic content is not put into place?

Mr. Bieber. I think you are absolutely right, Senator. And the announced plans of General Motors are no secret. They intend to import all of the small cars. There is a lot of talk about the Saturn project. I would just point out one thing: There is no year date on that Saturn project. It does not say it will ever be produced.

I do not think that there is any question that if the doors are opened, so to speak, now, VRA comes off, and we do not proceed with this bill, Chrysler will not produce the replacement car for the Omni and Horizon, and they have to move on that in the next model year. That car has run its course.

Chrysler would be under great pressure because they have a lot of eggs in the small and subcompact car basket. General Motors can obviously do much better because they have always been strong in the luxury car field.

But you are absolutely right in your analysis, and it is part of the point I tried to make in my opening remarks, that we talk about the consumer. I want the consumer to be able to buy the best, highest quality car, at the cheapest possible price we can manufacture it. But we had better look at what happens to an industry when you lose all of that capability.

Let me remind everyone that you cannot just turn that around overnight, even if you chose to. I do not know where you would get the capital to do it, but you cannot do it physically. We all went through that when we had the energy crunch, when we had to downsize from a big car. It is not something you can do overnight.

So that if I might just say this, I know that Senator Packwood, the chairman, raised this before. We are in a very critical period of time for the small car industry. Unfortunately, the current auto companies' decisions as they make the decisions of whether they buy import or build is I think distorted for a number of reasons.

No. 1, the exchange rate obviously is out of whack. So it is a distorted decision that they make, so to speak. The tax systems are much different. To quote Lee Iacocca, we are forced to play on a very uneven playing field.

And I think the other important thing is, in the foreign countries the government support for their auto industry abroad is there, but it is not here, and they are in a sense assured a stable market in Europe, Mexico, and Japan, but again not here.

And I think that if this country is going to continue to have our basic industry—and the auto industry is a very, very important cog in that—then we have to adopt an auto policy for this country. We cannot exist the way we are going.

Last but not least, I would hate to think of an America that has its basic industry torn asunder, because that becomes an America, unfortunately, which in the future does not even have the capability to defend itself, and I do not think any of us want to see that happen.

Senator **Riegle**. I think you are right. We have not dwelt at length today on the national defense implications, the importance of the industrial base to this country. And if we ever find ourselves having to mobilize rapidly in the future, when the automobile industry, the steel industry, and the basic industries have moved offshore we are going to be in big trouble. If we think we are necessarily going to be able to buy our combat trucks, our jeeps, our tanks, and everything from Korea or Japan, because that is where all the manufacturing facilities are, I think that is just a foolhardy notion.

I want to nail down two other things. I think Senator Danforth before he left—and I would have said it in his presence had he been here, so I will repeat it to him when I see him in person again. But I think he advances two false premises here that it is important for us to deal with and show to be false premises.

One is he makes the assertion that if we just allow an unlimited trade invasion in cars in the end the American consumers will come out ahead, because they will get lower prices. I think, as we have just been describing a minute ago, that is not what follows when you go on through this cycle, for two reasons.

Because in the end, once the foreign producers have come in and damaged the domestic industry enough and have weakened it and basically put it out of commission to be entirely competitive, then what the foreign suppliers will do is drive their prices as high as they can, because that is their essential motivation, to maximize profits.

So after they have weakened it sufficiently, we will be paying higher and higher prices for Toyotas and Hondas and so forth, because they want our wealth. It is just a practical matter.

But there is another aspect of that, and that is that the national income that we are going to have available as an entire society to pay for the cars or anything else we want to buy is going to be lower than it otherwise would be, because we are going to be losing these jobs in our own country.

We are going to be losing the national income. The wealth will be leaving the country, and our average wage levels will be dropping. So you are going to find the situation where not only is the price of a Honda in the future going to be edging up because the Japanese want to extract as much as they can, but we will find more and more American workers earning lower and lower average salaries, so they will have less buying power with which to go out to try to buy a car, a house, or anything else.

So it is sort of a double-barreled effect. The problem is that Senator Danforth's premise does not really get into what this turns into as the screw keeps getting turned.

The other thing is this. He makes the point that if we have domestic content it involves "an economic sacrifice for the American people," and he very cleverly postures the notion, why should the American people want to put an economic sacrifice on themselves to benefit the auto workers?

Well, that is a totally false premise, and if you put that premise out there, obviously you can structure the debate in that fashion, but that is not the case. What is happening here is that the country is losing as a whole because of the drain of $120 billion a year in the deficit. As measured by every measurement—the Federal deficit, unemployment, interest rates, you name it—we are damaged in every respect.

Cars are only a part of that, and if that is all there was we would not have as strong a case. But it is all of the other things in addition to that which bring us here today, and the fact of the matter is the American people as a whole are being harmed by this, not helped by it, and if it is allowed to continue we will be harmed even more.

That is the fundamental economic bottom line that we must understand, because these jobs are not jobs which are off in a pigeonhole somewhere. They are connected to every other job. So in the end, the workers in Louisiana, Oregon, or any other place, in any other field, end up being connected to the overall economic health of the country, as do our auto workers or any other workers in Michigan.

So if we cannot start thinking about ourselves as a country again as a whole, we are going to sink deeper and deeper into trouble, and the time has come for us to start to think about ourselves that way. And if it is only an act of national selfishness in terms of one more decision about me buying a television set today because it is $10 cheaper from a Japanese supplier, without tracing this all of the way through to where America will be in 5 years or 10 years, then we are headed down the drain, because the other nations are going to drive us down the drain, because that is the only way they can maximize the gain for themselves. And it seems to me that that is the issue.

Mr. Bieber. I would only add to that, Senator, that the auto industry and the jobs that are created as a result of those auto jobs have played an important role in building the middle class, the great middle class of this country. If we let that industry go from our shores, there goes the middle class of America as well.

The Chairman. Mr. Bieber, Lane, thank you very much. I appreciate it.

Next we will hear from Rudy Penner.

Mr. Penner is the director of the Congressional Budget Office, and has one of the most significant responsibilities of any staffer on the Hill. I think we will wait just a minute, Rudy, until they file out and close the door, and then we will start.

Have you been here all morning?

Mr. PENNER. Quite a bit of it, sir, yes.

The CHAIRMAN. Before you start, I might announce that Thomas Gleason, the president of the International Longshoremen's Association, has a statement. He is in opposition. He could not be here, but he asked that his statement and a letter be put in the record.

OK, Rudy, go ahead.

## STATEMENT OF RUDOLPH G. PENNER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. PENNER. Thank you very much, Mr. Chairman.

If I could, I will summarize the statement very briefly, and submit my full statement for the record.

The Congressional Budget Office believes that the proposed Fair Practices in Automotive Products Act, S. 707, would stimulate employment in the domestic auto industry, but the cost to other sectors of the U.S. economy would outweigh these benefits.

The negative tradeoff is more likely now that the economy is in the midst of a strong expansion than was the case 2 years ago, when the economy was in the trough of a severe recession. In an expansionary phase, when competitive bidding for resources intensifies and many industries are approaching capacity, artificial shifting of productive resources from one sector to another—in this case, to auto production—increases the overall cost of domestic production, which in turn, ultimately makes consumers worse off.

In summary, my testimony concludes, first, that the U.S. economy in general and the automobile industry in particular have recovered dramatically from the past recession. Domestic auto sales have returned to their 1979 levels, and more than 200,000 workers have been reemployed in the motor vehicles and equipment industry since 1982.

A reasonable estimate of S. 707's effect on foreign and domestic auto producers would be a reduction of 1,100,000 million imported autos, to be replaced by only 600,000 U.S.-produced vehicles. Employment in auto and auto-related industries would correspondingly increase by more than 100,000 by 1990. The price per auto would rise by something over $300 in 1982 dollars.

The net effects of S. 707 for the U.S. economy, measured in terms of real economic growth, inflation, employment, sufficiency, and consumer welfare, would be negative, although small, assuming no foreign retaliation follows. The resultant smaller output would be distributed in favor of the beneficiaries of the legislation—the auto and auto-related industries—at the expense of the rest of the economy.

With retaliation, of course, the effects would be very much more damaging. Obviously, the danger of ever-increasing protectionism around the world, which such legislation could spawn, could thwart the upward trend of world trade that has contributed so importantly to the long-term improvement in the living standards of the United States and its trading partners.

Thank you, Mr. Chairman.

The **Chairman**. Let me ask a specific question that Senator Danforth wanted to ask of you. If there is no retaliation and no imitation, how many people would lose jobs if this bill passes, and who would they be?

Mr. **Penner**. If there is no immitation?

The **Chairman**. That is, if we do not have domestic content laws passed every place else in the world.

Mr. **Penner**. Oh, I see. The net effect would be very small, in our view.

The **Chairman**. If you can, please be specific. Are we going to gain 6,500 jobs in the auto industry and lose 2,400? That kind of analysis, if possible, would be helpful.

Mr. **Penner**. Directly in auto manufacturing, CBO estimates a gain of 38,000 jobs. These are all in 1990, when the thing is in full operation. Auto-related industries would see a gain of another 69,000 jobs—that is, in parts production and down the production chain. In non-auto-related industries, we would lose 173,000 jobs, for a net estimated loss of 66,000, which is, of course, quite small relative to the huge labor force in the United States.

The industries that would lose are primarily export-related in one way or another. Obviously, agriculture, being one of the prime exporters, would lose quite a bit. I do not have these broken down by export industries, but we have been doing very well, for example, in petrochemical exports recently, as well as in aircraft exports, computer exports, and so on. I would expect that kind of industry to be most affected, along with industries that compete with imports and nonauto areas.

The **Chairman**. If there is retaliation, how many people would lose their jobs?

Mr. **Penner**. That is almost impossible to answer, sir, because it would so obviously depend on what sort of retaliation occurred—what form it took. If other countries imposed their own domestic content legislation, obviously, it would be hard to apply that to our agricultural exports. My guess would be that the U.S. farm sector would not suffer so much as some of our manufacturers—such as aircraft manufacturers—would if they were required to move their facilities. But it isn't a forgone conclusion that retaliation would take the form of domestic content requirements. It could take the form of quotas, tariffs, or what have you.

The **Chairman**. Don?

Senator **Riegle**. Thank you, Mr. Chairman.

First of all, let me welcome you to the committee. You have a tough job. I know you are working very hard at it in the Congressional Budget Office, and I wish you the best with it. We have not yet had a chance to see one another across the table in this capacity, but I want to have a brief but serious discussion with you on these matters. First of all I am wondering if in analyzing the approach of the study you have done, if in taking it apart and testing some of the economic assumptions, it was found that they were not correct, could we begin to look at revising or redoing the current study. I assume you are not so ideologically boxed in that you would find that you could not accept results that differ from yours if they come out of a revised study. Is that a fair judgment on my part?

Mr. Penner. If we thought the assumptions were more reasonable than ours.

Senator Riegle. That is what I am saying. What I am asking is can I assume that you are not coming at this with any kind of an ideological predisposition one way or another as a "free trader 'or someone who comes in with a bent against domestic content. And that you are willing to just take an absolutely pragmatic assessment of the economics and let them come to whatever bottom line that they produce? What I am asking is do you start with a point of view on it.

Mr. Penner. I think there are different levels at which one can answer that, Senator. First of all, we take no position on this bill. We think that in terms of its net effect on the economy, it would reduce efficiency by a small amount. The major effect is the redistribution from other kinds of production toward the auto workers and owners of U.S. auto companies. You know, as a society, we always make that kind of decision—to redistribute income for one reason or another—and we often accept some inefficiency in that regard.

At another level, one can look at how the inefficiency manifests itself, and that is quite sensitive to analytic assumptions. If you accept that the economy would be less efficient with this legislation in place, then the question is, how does that inefficiency show up? In our estimate, we have it showing up in a variety of ways. We have it showing up as a little higher inflation, a little lower employment, a little lower economic growth.

Senator Riegle. I am not sure I made my question clear I want to make it clear, because I want you to be able to answer the question I am posing. I have gone through the study, and I know how you have done it. I think some of the economic assumptions are incorrect, and I would like to feel that I could convince you that that was the case. I guess what I am really asking is, do you start with such a strong point of view on domestic content that even if I am able to show you that maybe we ought to be using some different economic assumptions, that in a sense I will lose that debate before I start, because you have already started with a point of view.

Mr. Penner. No, we enjoy debate, sir.

Senator Riegle. Good. I am asking you in a serious way.

Mr. Penner. Sure.

Senator Riegle. Do not misunderstand me. I think we need to take the study apart, test the pieces, and put it back together again if it is not in the right form now.

The Chairman. Are you going to try to convince him now?

Senator Riegle. I do not want to take all afternoon on it, but I do want to go through three points to find out where we are on this thing.

First of all, you mentioned the point earlier that the domestic industry in your view seems to be in pretty good shape, record profits, and so on and so forth, and you expressed the view that that is the case.

Mr. Penner. Could I just add to that one minor point—not so minor, really. In my complete testimony, it notes that while the industry has risen a great deal in profits—which is obvious—on the other hand, we do not expect to reach the same sort of peak relative to the rest of the economy of that achieved in 1978.

Senator **Riegle**. Let me give you a piece of information that I presented very early this morning, perhaps before you were here. I am very sensitive to what the financial markets seem to think is happening and the judgment they express. Because it tends to be a nice, impartial judgment, if you will, in the sense that it reflects a composite of opinion of investors around the world. And one of the things I am struck by today, I do not know if you are aware of this or not, but while the Ford Motor Co. is experiencing record profits and so forth in the midst of a boom it is selling at only two times earnings in terms of its closing price yesterday on the New York Stock Exchange. Chrysler is also selling at two times earnings, and General Motors, the premier company in terms of market share, is selling at four times earnings.

This compares to other industries, maybe Kellogg, selling at about nine times earnings, and other sort of standard companies in this society selling at much higher price earnings multiples. I have wracked my brain to think if I can remember any time in contemporary history where the auto industry appears to be in strong shape in terms of sales and profits where the price earnings ratios by the financial markets have been that low, and I cannot recall any or find any. I mean, it is extraordinary. It is really an extraordinary situation.

I deduce from that that the financial markets are looking at the companies and deciding the earnings won't hold up, that they are really valuing the future earnings streams, and are very pessimistic about it, and as a result are not willing to capitalize today's earnings more than two times, three times, or four times what they presently are.

Does that strike you as suggesting that maybe there is some real apprehension about the future of the industry here?

Mr. **Penner**. That is what I just said. We do not see it growing either as rapidly as it was up to 1978 or as rapidly as the rest of the economy now. That is our conclusion. Of course, it is a highly cyclical industry, and of course it faces some danger of strikes in the fall. So putting all of those things together, no, I do not find it surprising at all that the stock market demands a different earnings ratio there from those appearing in other areas.

Senator **Riegle**. This is what I want to get to: How you view these things. Because I think it relates to how the study is done and is apt to be done if it is redone, and it seems to me that you are talking about the industry not having a further surge. I would think that the financial markets today, if they thought Ford Motor Co. would continue to earn what they are presently earning for the next 5 years, no growth in earnings, just maintaining those earnings, I do not think it would be selling at two times earnings, whether there would be potential for a strike or not.

I guess you are saying you do fundamentally disagree with that.

Mr. **Penner**. I think it is somewhat contradictory. I mean, obviously, they will not earn that much if there is a strike.

Senator **Riegle**. But a strike does not last forever, does it?

Mr. **Penner**. No, but these days, financial markets are operating with extraordinary rates of discounts in all areas, as you know.

Senator **Riegle**. That is right, because they are frightened to death about the trade deficit, the fiscal deficit, and a lot of other things. Let me suggest to you, although I do not want to dwell any longer on this point, that you really think about why two of the companies are selling at two times earnings and GM is selling at four times earnings. Because I think the financial markets are saying something to us which includes the strike possibility, but much bigger than that, the future of this industry, and that goes to the assumptions you make. Because among the assumptions you make in your study is, first of all, that we will get retaliation.

Mr. **Penner**. No; we do not.

Senator **Riegle**. You do not assume any retaliation?

Mr. **Penner**. No, sir, not in our base case. No. We say, if you got retaliation it would be worse.

Senator **Riegle**. I take it you do not assume then that there would be retaliation.

Mr. **Penner**. Not in the numbers I just gave the chairman, no.

Senator **Riegle**. I am now interested in the bigger point. You are saying you do not think that if we had domestic content Japan would retaliate against the United States?

Mr. **Penner**. We do not make a judgment on that point. It is very hard to guess, as you well know, what their response would be. We just make the conditional statement that if they did retaliate, obviously, things would be a lot worse for the U.S. economy.

Senator **Riegle**. So you make no assumption that retaliation will occur.

Mr. **Penner**. Not in the employment numbers that I gave the chairman in response to Senator Danforth's question.

Senator **Riegle**. Do you make that assumption in any other part of your study?

Mr. **Penner**. Not as it is referred to in my testimony today, no.

Senator **Riegle**. But you are saying that so carefully. Obviously you did crank it in somewhere. Where did you?

Mr. **Penner**. I did not mean to give that impression.

Senator **Riegle**. So retaliation is not assumed?

Mr. **Penner**. I guess I am getting very careful about the questions.

Senator **Riegle**. It is important that we nail things down as we go here. I notice that you assume that the import share will remain at 25 percent going out to 1990. Why is that a realistic assumption?

Mr. **Penner**. In terms of what we were doing, we think it is a conservative assumption. That is to say, to the extent that it would rise beyond that, it would, of course, imply that the foreigners—really, the Japanese—were gaining on us, in their competitive power in being able to sell to us more and more cheaply. So when we curbed imports with a domestic content quota system, prices would go up even more than we are suggesting, and the shift in employment from nonauto to auto sectors would be more than we are estimating. The resultant inefficiency of the American economy would therefore be greater than we are claiming.

So, in that sense it is a conservative way of looking at it.

Senator **Riegle**. Well, I am going to come back to you with the reasons why I think we should apply a different assumption in that area. You also make the assumption that there will be no big rise in outsourcing, and yet everything I am reading and hearing suggests that that is increasingly the trend. You have heard several references to it today. Was that news to you when you heard it today?

Mr. PENNER. No, sir. Again——

Senator RIEGLE. Did you just not give great weight to that?

Mr. PENNER. Again, if we had assumed it from the point of view of what we are doing—that is, to look at the economic cost of domestic content legislation—we wanted to be conservative. We did not want to exaggerate the costs, so we made very modest assumptions in that regard.

Senator RIEGLE. Let me ask you this. What is the net economic effect on the United States of a $120 billion merchandise trade deficit in a year's time?

Mr. PENNER. I sat through the interchange you had on that before, sir, and I really look at it in a way very different from that other discourse would lead you to believe. I do not think you can look at it alone. I think it is the other side of a very large capital influx in this country, and in my judgment, that capital inflow is to some degree—in fact, to a fairly large degree—the result of our budget deficit.

That is to say, our budget deficit, by all the bonds we are having to sell, putting upward pressure on interest rates in this market. This is attracting foreign capital. It is causing Americans who would otherwise invest abroad to bring their money home. The end result of that is a very high exchange rate for the dollar, making the dollars look very good, and of course that then has to convert into a trade deficit. So that is how I see the causal linkage.

Senator RIEGLE. You are not saying that is the only cause for the trade deficit?

Mr. PENNER. No, I am not saying that is the only cause, but I think that is a very major cause.

Senator RIEGLE. I would agree with you that it is part of the problem.

Mr. PENNER. And to that extent, we are obviously better off being able to borrow abroad to help finance our deficit, given the deficit sitting there, than if we could not.

Senator RIEGLE. Sure, but you are not suggesting that the two things are the same. You are not suggesting that sending money out of the country, buying foreign goods is the same thing as borrowing money from a foreign lender and having to pay interest on it, and eventually having to pay it back. You are not saying those two things are equivalent. I know we fold them into some of our flows of funds, but you are not saying that those two transactions represent the same kind of economic situation, do you? You are not making that point, are you?

Mr. PENNER. I am not sure if I understand you. They have to be equal, obviously. The balance of payments has to balance. So any current account deficit we have has to be financed by an inflow of money.

Senator RIEGLE. That is exactly right. I am saying, though, if in fact you have a merchandise trade deficit on one side because you are buying cars or TV sets, you get those products, and your money goes overseas, so you have lost that money. They in turn decide they want to lend some back to us. That is the foreign borrowing. That is the other side of the transaction.

The difference is, we have lost the money, and when it comes back, it comes back in a borrowed form for which we pay interest, and any time they want to take the money back, they can. That is very different from us being left with a car or TV set. So you are not seeing those two things as equal. You do not see them as the same kind of transaction, do you?

Mr. PENNER. Maybe I do not get your point.

Senator RIEGLE. One adds value to your economy, and one does not.

Mr. PENNER. Oh, we are much better off having that inflow of money than we would be without it, because it keeps interest rates down.

Senator RIEGLE. The question is, are we better off having the outflow of money on the basis of buying foreign goods than we are the inflow of money which is a loan we are taking out that we have to pay back? Are you saying the loan is better for us than in fact the fact that we are failing to sell the goods abroad? I mean, is that——

Mr. PENNER. It would be wonderful if we could borrow forever and be able to buy as many goods in excess of our production as we could from abroad. But the problem is, of course, that there is no guarantee that we can borrow continuously from abroad, especially since so much of this borrowing, in my judgment, is stimulated by a bad policy on our part.

Senator RIEGLE. I agree with you.

Mr. PENNER. I am certainly not implying that it is a great thing, because when they pull the string on us——

Senator RIEGLE. Exactly.

Mr. PENNER. I mean, they may not for a long time, or if they should, or we get vulnerable to that——

Senator RIEGLE. That is exactly right.

Mr. PENNER [continuing]. Then the value of the dollar would fall That would be good for exports and bad for imports, but it would involve a big adjustment. It would raise inflation in this country. Interest rates would probably go up, and it is hard to tell how the Federal Reserve would respond to all of that.

Senator RIEGLE. We could find ourselves diving into a recession pretty quickly.

Mr. PENNER. Precisely. So I personally do not think that it is a great situation. Quite to the contrary. But I think we are lucky so far that they have been willing to lend us the money, because they do not have to send it back to us. They could go anywhere else. They could go to Germany or wherever they liked.

Senator RIEGLE. And we are together at this point. They are sending it back to us, because we basically have the highest interest rates, which relates to a whole other set of factors, but they have the choice of withdrawing that money at any point they wish. As you said, they can park it in Germany or some other place.

On the other hand, let's look at the merchandise trade deficit. Once that merchandise transaction has been affected, that transaction is over. In other words, we have exchanged dollars for goods.

We have the goods. It is not as if we can send the car back to Japan. We cannot say suddenly we want to undo the transaction. We are only borrowing the car. We will give you the car back. I mean, those two transitions are different.

Let me tell you what I want to get to, because I am at heart a supply sider, at least in part. I think we have to be adding value in terms of the economic production of this country. It relates to savings, investment, interest rates, balance between monetary and fiscal policy, and a lot of other things.

But if we stopped adding value in terms of expensive goods, cars, computers, airplanes, and so forth, that have been a part of our wealth creation in the past, and increasingly a big chunk of that business leaves our country and goes abroad, and I am talking about a net merchandise trade deficit, yes, we are doing some exporting at the same time, but there is a widening gap to the tune of $120 billion a year now.

If in the merchandise trade deficit we are losing that activity, we are not producing it, we are not adding the value in our society, we are not retaining those dollars in terms of an equity in a capital form in the United States. They go abroad, and yes, they come back as loan dollars, but they can be withdrawn at any time.

It seems to me that there is some point, and I do not know precisely where it is— But I think it's maybe at a $120 billion a year trade deficit—that you start to impoverish yourself from the point of view of adding wealth in your own society. This capital is leaving in equity and capital form, and if you do that long enough at a high enough level, you will materially impair your own economic strength.

Now, would you agree or disagree with that?

Mr. **Penner**. I guess there, sir, I would have to say that I do look at it differently. I think you are making too much of a distinction between the two sides of the balance of payment, forgetting for the moment about the vulnerability that it creates for us, which you and I seem to agree on perfectly. The inflow of capital is enabling us to invest much more. It is enabling a higher level of capital investment. It is enabling a higher level of housing investment than if we were not able to draw on those foreign savings. So it is creating wealth in this country. It is creating productive capacity.

Another way of putting it is that it means that our budget deficit is not crowding out as much capital formation as it would otherwise. Of course, now, as a result of all of that, more of our capital stock will be actually owned by foreigners. So in the longer run, we will pay them for that.

Senator **Riegle**. Which they can withdraw, at least in the form of debt instruments.

Mr. **Penner**. That is the vulnerability aspect of this. Sure.

Senator **Riegle**. But you see——

Mr. **Penner**. In terms of long-term wealth creation, I think we are able to have a higher level of capital formation and wealth in this country than we would be if we had to finance our entire budget deficit domestically. That is, if we could somehow build a wall around ourselves, we would be worse off. There is no doubt in my mind about that.

Senator RIEGLE. Let me just finish with a proposition for you to think about. We can discuss it later. I would not have gone on at this length had I realized we still have other witnesses to come to the table, and I do not mean to trespass on them or the chairman here. I would like you to think about what happens if the merchandise trade deficit continues to rise from the $120 billion annual rate based on the first 3 months and goes higher, and if you assume that it would continue to ratchet itself out over the next year, 2, 3, or 4 years. I think we tend to assume that these things work in cycles, and that the currency values will change, and interest rates will change, and suddenly that will sort of self-correct and work its way down.

What I would like to have you help me think about is, what happens if the rules of the game somehow do not work the way we would like to see them work? In fact, if the merchandise trade deficit were to continue to rise and stay at a very high level, is there a different kind of economic exhaustion or harm that starts to accumulate for the country that maybe we have never had to think about before?

Mr. PENNER. In thinking that through, perhaps your staff could help my staff. It depends. The answer to the question depends absolutely and crucially on why. Why is the trade deficit rising? Because we are having a bigger and bigger budget deficit?

Senator RIEGLE. Partly.

Mr. PENNER. Maybe.

Senator RIEGLE. Let me give you two other factors.

Mr. PENNER. Is it because other countries are more protectionist? It is very different, obviously.

Senator RIEGLE. That is right. Interest rates no another factor. Take Japan, for example, where the prime rate there is now 5.5 percent, compared to 12.5 percent here, and they have not internationalized their currency. Clearly that is another factor. The differential wage rates are another factor.

The fact that they provide health care through a national system which is financed apart from product cost is just one piece of the labor problem. Another factor is barriers to trade that keep imported cars in Japan to no more than 1 percent of their market. All of these things together are part of the dimension of the problem, but it seems to me that we may be setting ourselves up for an enormous additional difficulty if we assume all of this is self-correcting.

It seems to me that I am hearing that somehow or another all of this will basically work itself out without additional policy initiatives, even with the fact that you do not have free trade in automobiles in the world today. You have a rigged market through all of the devices everybody knows about. That is what I want to try to get at. So let us see if in talking to one another we can try to size it up some different ways.

Mr. PENNER. All right.

The CHAIRMAN. Thank you very much, Rudy.

[The statement follows:]

## STATEMENT OF RUDOLPH G. PENNER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, I am pleased to appear before your Committee today to discuss the proposed Fair Practices in Automotive Products Act, S. 707, and its counterpart

(H.R. 1234) passed in the House during the last session. Both bills are designed explicitly to promote production by American workers by limiting the proportions of foreign-built components and materials used in automotive products sold or distributed in U.S. interstate commerce. In my remarks this morning, I would like to focus on three issues:

How the U.S. auto industry has fared in the changed economic climate,

How S. 707 would operate and how it would affect auto producers, and

The economic consequences CBO sees arising from S. 707.

The Congressional Budget Office believes that, like its predecessors (S. 2300 and H.R. 5133) considered in the 97th Congress, S. 707 would stimulate employment in the domestic auto industry, but the costs to other sectors of the U.S. economy would outweigh these benefits. In general, CBO finds the net adverse economic effects arising from implementing S. 707 even more likely now than they were in late 1982, when CBO presented its evaluation of S. 2300 to this Committee. At that time, when the U.S. economy was in the trough of severe recession, with productive resources considerably underutilized, a reasonable argument—though a highly qualified one—could be made that trade quotas could generate short-run gains in employment. The significant risk of such policy initiatives, CBO noted, would be that the employment generated in one industry might be impossible to achieve without incurring employment losses in other industries.

As the economy is now in the midst of a strong expansion, there is less room today for the domestic auto industry to expand without diverting resources from other industries. Thus, the benefits to the auto industry are even more likely now—as the expansion matures—to be nearly or completely offset by higher costs to other industries.

## THE AUTO INDUSTRY IN A SHIFTING ECONOMIC CLIMATE

Two years ago, the U.S. economy was experiencing the deepest economic trough since World War II, and the U.S. automotive industry—one of the economy's most cyclically vulnerable sectors—was in its worst decline in 40 years. The total industrial production index in 1982 was 5.1 percent below its 1978 level, while auto production in 1982 was some 44 percent below its 1978 unit output level. Total employment in motor vehicle and equipment manufacturing dropped from a peak of 1.05 million workers in January 1979 to 641,000 workers in November 1982—a decrease of nearly 40 percent. By the beginning of 1983, a record 269,000 auto workers were on indefinite layoff.

### *Effects of the recent upturn*

The U.S. economy in general and the auto industry in particular have recovered dramatically from the 1981-1982 recession. Domestic auto sales in the first quarter of 1984 have returned to their 1979 levels, though they still stand 10 percent lower than the 1978 peak. As auto sales have improved, many auto workers have been called back to work. According to figures of one trade publication (Wards Automotive Reports), the number of autoworkers indefinitely laid off had decreased to 97,000 by April of this year—a decline of 64 percent from January 1983.[1] Figures issued by the Bureau of Labor Statistics (BLS) confirm this improved picture, showing an increase of 200,000 jobs in motor vehicles and equipment since late 1982. Recent reports of auto industry profits offer additional evidence that the industry is regaining its health.

U.S. automotive employment may not, however, achieve its 1978 peak levels, despite the strong economic expansion now under way. A slowing in the overall growth of the nation's automotive fleet, the introduction of more efficient plants and processes, together with a smaller proportion of larger cars than was produced in 1978, may ultimately mean that employment in the auto industry will not, in the near future, constitute the same share of total U.S. employment as in other recent expansions. U.S. auto firms, despite their growing competitiveness, are unlikely to recapture the market share they lost to foreign producers in the late 1970s. Increased "offshore sourcing" of auto components, as domestic manufacturers attempt to remain cost competitive with foreign producers, will inevitably dampen employment growth in the auto-related industries.

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[1] It should be noted that General Motors changed its method of reporting indefinite layoffs in 1983. Though this change makes comparison with the earlier layoff totals difficult, the total number of auto production workers recalled since January 1983 approaches the change in layoffs.

## THE MECHANICS OF S. 707 AND THEIR EFFECTS ON PRODUCERS

Like its predecessor bills, S. 707 would create additional U.S. auto industry jobs by instituting minimum "domestic content" requirements beginning with model year 1985. The provisions would be phased in, becoming fully operational by model year 1987. These content requirements (defined as U.S. value added as a percent of wholesale automobile price) would have to be met by every auto manufacturer, foreign or domestic, selling more than 100,000 units a year in the U.S. market. These requirements are graduated, from 10 percent to a maximum of 90 percent for all firms selling more than 900,000 vehicles. To assure compliance, vehicle manufacturers failing to meet content requirements would be subject to future restrictions on their volumes of sales in the United States, subject to a determination by the Secretary of Transportation.

### *Effects on foreign exporters*

According to CBO's estimates, at least 15 percent of the wholesale value of an imported car would now qualify as constituting domestic content (most of this represents expenditures made by foreign manufacturers in the United States for advertising, transportation, raw materials, and accessories.) The domestic content of foreign-produced autos could be increased by another 10 percent relatively easily by foreign automakers' purchasing additional U.S.-built components. Thus, domestic content of around 25 percent would be fairly easy for foreign automakers to achieve by 1990. According to the provisions of the bill, this would mean that each foreign auto producer could export 250,000 units per year to the United States without establishing production facilities in this country on a large scale. To maintain their U.S. market shares, however, the four large-volume Japanese auto producers—Toyota, Nissan, Honda, and Mazda—would have to locate a significant share of their production facilities in the United States. Honda and Mazda could probably meet the required domestic content levels without much difficulty. Honda already has production facilities in operation in Marysville, Ohio, and the domestic content required for Mazda would be only slightly above the easily achievable levels. The key uncertainty surrounds the responses of Toyota and Nissan.

Nissan has recently opened a light-truck manufacturing plant in Smyrna, Tennessee, and plans to produce cars there as well. Toyota has embarked on a joint venture with General Motors (GM) to manufacture cars at an idle GM facility in Fremont, California. But these facilities represent added production capacity, not substitutes for overseas production. Thus, Nissan and Toyota managers evidently do not yet think that shifting a sizable proportion of their operation to the United States would provide any cost advantage.

Therefore, the practical effect of S. 707—at least in the short run—would be the imposition of an import quota on these producers.

### *Secondary effects on the U.S. industry*

By restricting imports of passenger vehicles and light trucks, the domestic content requirement legislation would have a significant and direct effect on output and employment in the U.S. automotive and related industries. Under the assumptions that domestic sales of new cars do return to earlier trends and that all foreign auto producers (other than Toyota and Nissan) increase their sales volumes at rates that maintain their 1981 U.S. market shares, CBO's review of a number of analyses suggests that a reasonable estimate of S. 707's impact is a reduction of auto imports to the United States to about 2.6 million units by 1990—approximately 70 percent of the 3.75 million units that might otherwise have been imported in that year. By 1990, the displacement of 1.1 million foreign cars is estimated to force up vehicle prices by an average of about $333 per unit (in 1982 dollars). Higher auto prices, in turn, would dampen sales of automobiles. As a result, U.S.-built vehicle sales would rise by only 623,000 units—considerably fewer than the 1.1 million foreign cars displaced.

## CBO ESTIMATES OF THE ECONOMIC EFFECTS OF S. 707

Most estimates presented in this testimony were made by CBO in late 1982, when the state of the economy and the auto industry was very different from today's.[2]

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[2] See statement of Alice M. Rivlin, Director, Congressional Budget Office, before the House Subcommittee on Trade of the Committee on Ways and Means, September 23, 1982. See also Congressional Budget Office, "The Fair Practices in Automotive Products Act (H.R. 5133): An Economic Assessment," in U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Trade, *Domestic Content Legislation and the U.S. Automotive Industry* (August 16, 1982).

Nonetheless, these numbers can be considered a fair approximation of the economic effects S. 707 would produce. By 1990, as a consequence of S. 707, direct employment in auto manufacturing related to increased production would rise by about 38,000 jobs, and employment in auto-related industries would rise by some 69,000 more jobs than they would have otherwise.

The CBO's analysis implies, however, that despite the benefits in sales and employment to the U.S. automotive industry, the net effects for the U.S. economy—measured in terms of real economic growth, inflation, employment and consumer's welfare—would be negative. The costs borne by the rest of the economy would overwhelm the benefits accruing to the domestic automotive industry. In general, restrictive trade policies work to reduce U.S. national income, and the resultant smaller income is redistributed in favor of the beneficiaries of the restriction—in this case, the auto and auto-related industries.

Such legislation can affect the U.S. economy adversely for several reasons. It can reduce efficiency throughout the U.S. economy by artificially shifting resources from some sectors to others—in the case of S. 707, to auto production. This could drive up not only the prices of finished goods but also those of labor and capital inputs for all other industries. Furthermore, the closer the economy is to full capacity utilization, the stronger this effect is likely to be. Second, by restricting consumers' choice among types and models of cars, S. 707 would directly reduce consumers' welfare. Third, the reduction in world trade likely to ensue from the bill (even without foreign retaliation) would in turn dampen demand for U.S. exports, reducing output and employment in U.S. export industries. Finally—and particularly important—the proposed legislation could be expected to provoke retaliatory trade restrictions against U.S. export industries. Let me take up these points in some detail.

### *Loss of efficiency*

Two years ago, when CBO last presented its conclusions on the likely effects of proposed domestic content legislation, we suggested that whatever benefits might develop from the bill would probably be temporary and would depend on the considerable slack—unemployment and low capacity utilization—then characterizing the economy as a whole. In a more fully employed economy, the overall effects of the legislation would be decidedly negative, with employment and output gains in the automotive sector attained only at the cost of attracting capital and labor away from other sectors of the economy.

Current economic conditions make this adverse outcome more likely for several reasons. First, because of diminished competition, U.S. car prices would be even more likely to rise in the face of present strong demand for automobiles and prolonged delivery lags. With the demand for automobiles as strong as it is today, if S. 707 were to reduce foreign competition in the U.S. market by a third, as suggested earlier, there is little reason to expect any strong incentive for moderation in sticker-price inflation.

Second, by artifically shifting productive resources from one sector to another (in this case, to auto production), domestic content legislation would tend to reduce efficiency throughout the economy. Particularly in the present expansionary phase—when competitive bidding for these resources is intensifying, especially among many expanding industries approaching capacity—such artificial shifting of resources would increase the costs of domestic production. This in turn would make U.S. consumers worse off.

### *Loss of consumer welfare*

S. 707 stands to damage consumers' welfare with higher car prices and restricted freedom of choice. Some would-be buyers might actually respond by postponing a car purchase. Without making some simplifying assumptions about how consumers measure their individual, let alone collective, well-being, it is difficult to attach any exact dollar amount to this welfare loss. The auto industry has learned from experience, though, that consumers facing higher sticker prices for an automobile selection that does not meet their preference will tend to hold on to their old cars longer and/or purchase used ones that do suit their tastes. Ironically, by imposing progressively more stringent restrictions tied to the volume of sales, domestic content legislation would have its greatest impact on the high-volume auto producers apparently most responsive to American auto tastes and price preferences.

### *Repercussions in the world economy*

Though the economy as a whole is experiencing a vigorous expansion, the performance of the U.S. net export sector is lagging far behind. Much of the decline in the net export balance can be attributed to stronger recovery in the United States than abroad and to the continued increase in the value of the U.S. dollar, which makes U.S. export and import-competing goods and services more expensive in world markets. Many struggling export industries are hoping for some price-competitive relief in the form of exchange rate depreciation and a stronger pick-up in foreign economic activity leading to stronger demand for U.S. exports.

By mandating a curtailment in auto imports, S. 707 could possibly cause foreign economic activity to expand less rapidly, in turn slowing the growth of foreign demand for all U.S. exports. In light of the importance of auto manufacturing to foreign economies—particularly to Japan's—and the nascent world economic recovery in general, these international repercussions on the U.S. economy seem likely unless foreign countries engage in offsetting expansionary policies. Furthermore, a reduction in U.S. auto imports could tend to strengthen the U.S. dollar on international exchange rate markets, raising the prices of—and lowering the demand for—the export products of U.S. firms. Moreover, this would give both auto and non-auto imports a further price advantage in American markets.

The most likely macroeconomic result is a net loss in U.S. employment and a slight decline in GNP. This would occur because employment losses in other industries would more than offset auto-industry gains. Nevertheless, the net changes would be small relative to the size of the economy. The main effect is a significant redistribution of real income from consumers and export industries toward the workers and shareholders involved in U.S. auto production.

### *Risk of foreign retaliation*

The not unlikely response of the United States' trading partners to a restrictive policy such as S. 707 suggests another major area of risk. Foreign governments whose auto producers were injured by this legislation might have the right, under articles XI and XXIII of the General Agreement on Tariffs and Trade (GATT), to retaliate with dollar-for-dollar trade restrictions on U.S. exports.[3] Even in the absence of GATT-sanctioned trade retaliation, protectionist legislation in general risks reigniting trade restrictions worldwide, which, past experience has shown, can have destructive effects not only on the U.S. economy but also on the world economy in general. The resultant reduction in world demand for U.S. exports would, of course, exacerbate any negative economic effect of the bill on the U.S. economy.

## CONCLUSION

Though the enactment of S. 707 would increase the incomes and employment generated by U.S. auto production, CBO concludes that the losses to be experienced by U.S. consumers and by the employees and owners of non-auto industries would outweigh the auto industry's gain. This would be true even if no retaliation against U.S. exports by foreign countries occurred; but if such retaliation did occur, the net loss would obviously be greater. There is the further danger of ever-increasing protectionism around the world, a trend that would run counter to the growth in world trade that has contributed so importantly to the long-term improvement in the living standards of the United States and its major trading partners.

The CHAIRMAN. Now we will conclude with Mr. Richard Horrigan, Julian Morris, James Jennings, and Ed Anderson.

At the request of 101 signatories, I will place in the record a letter from the National Institute of Economics and Law in opposition to this bill.

They reach a number of conclusions, of which I will read only three:

> Relieved of competitive pressures, the U.S. automobile industry would have less motive for solving its problems of low productivity, and would be free to raise prices still further against consumers. Prices to consumers would increase amounts estimated to range from $300 to $1,000 per vehicle, and employment of sales of U.S.

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[3] The domestic content bill considered in the last Congress, S. 2300, left open the question whether foreign governments whose auto producers were injured by the legislation would have such right under the GATT rules. The legislation adopted by the House, H.R. 1234, attempts to resolve this through a Congressional finding of auto-industry injury attributable to imports and a Congressional and Executive Branch fact-finding process aimed at determining whether the industry is still being hurt by imports six years from now, thus requiring maintaining H.R. 1234 as a solution to these problems. Analysts disagree about whether these elements of the legislation effectively foreclose the availability of GATT-sanctioned retaliatory actions agsint U.S. exports.

exports would decline as a reduction in imports exacerbated the upward pressure on the value of the dollar, tending to increase further the relative cost of U.S. exports.

Among the signers are Carl Sanderson of MIT and James Tobin of Yale, who are Nobel Prize winners; Barry Bosworth and Fred Kahn, two names well-known to us from past government service; Gardner Ackley, who was a member of the Council of Economic Advisors, and Henry Carter Adams, Professor of Political Economy at the University of Michigan.

Now, Mr. Horrigan, do you want to go first?

## STATEMENTS OF RICHARD HORRIGAN, CHAIRMAN, AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION; JULIAN C. MORRIS, PRESIDENT, AUTOMOTIVE PARTS AND ACCESSORIES ASSOCIATION; JAMES P. JENNINGS, PRESIDENT, NATIONAL AUTOMOBILE DEALERS ASSOCIATION; AND ED ANDERSEN, MASTER, NATIONAL GRANGE

Mr. **Horrigan**. Thank you, Mr. Chairman. I have Mr. Robert McElwaine with me, who is my economist.

Very shortly now, I will enter my 35th year in the automobile industry. My father was in the business and I now have two of my own sons working with me. Ours is a family oriented to the automobile business. We feel very strongly that we are a part of the American automobile industry.

How could we feel otherwise, as all of our 65 employees and all of our customers in my home town are American. The products and services we buy from suppliers and support industries are American. The fact that most of the products that we sell come from abroad doesn't make us one whit less American than my tennis partner, the Ford dealer, who may be selling Fords made by Mazda.

In addition to that, my Chevrolet dealer friend who, despite his emphasis on baseball, hot dogs, and motherhood, is still no more American than I.

When the opportunity came for me 15 years ago to become an import car dealer handling the little German Bug, the Volkswagen, I saw my opportunity to have and operate my own business. My story can be repeated by several thousand other American import car dealers who have been given an opportunity to be entrepreneurs and start their own dealerships.

What could be more American than creating opportunities for the establishment of new retail businesses? Over the years, I have added other import franchises, including Audi, BMW, and Subaru. What began as a small business is now a fairly large business, and has quite an effect on the economy in my hometown.

Having established my credentials as a bona fide American automobile business person then I confess I am increasingly alarmed by some of the developments in our industry. Unless present tendencies are checked, I believe there is a very real danger that the U.S. auto business will either become a mere marketing and service operation for products produced abroad, or ours will become a highly nationalized business subsidized and protected by the Federal Government, producing a limited number of very high-priced automobiles, and these will be bought by the well-to-do, the only people left who could afford them.

These alternatives may well become all of the options Detroit has, if management and labor persist on their present course which is short range: take the money and run. That is completely contrary to the principles on which this industry was founded and to the principles I learned when I went into my own business.

Although Henry Ford was not the first American to manufacture automobiles, his philosophy set the standards by which the industry grew to its present size. He charted the industry down the road by manufacturing cars as inexpensively as possible, in order to offer his cars to the public at a price that was acceptable to the broadest spectrum of the buying people.

These profits that were so generated were poured back into the company to enable them to produce an even better product. Today, Detroit, protected from competition behind a screen of protectionism, seems dedicated to the philosophy of producing the fewest possible cars at the highest possible price.

Despite their need for revitalizing their production capabilities to compete with foreign producers, they are squandering their enormous profits on executive salaries and bonuses, dividends, and an insatiable increase in labor costs for what is now the highest priced labor pool in the world.

Executive bonuses paid recently by one U.S. company would have been sufficient to build an entire factory. Under the evolving labor contact from this year's labor negotiations, we heard earlier today that the rate is $12.30 plus fringes. We do not know where it will go, but we know it will certainly go higher.

The consequences would be either a transfer of production overseas or Government intervention to protect the industry from competition. This seems to me to be where we are today, and the domestic content bill would put us there. I do not think that this is in the best interests of the United States.

I am here also as a representative of the Association of Imported Car Dealers, and we represent 5,500 franchises, in our industry. The automobile retail imported car industry, in this country employs 165,000 plus people. Certainly these jobs would be in some jeopardy if the production were able to be cut back.

The CHAIRMAN. Thank you.

[The statement follows:]

## STATEMENT OF RICHARD HORRIGAN, CHAIRMAN OF THE BOARD, AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

### EXECUTIVE SUMMARY

Domestic content legislation was a bad idea when it was first proposed, and is a worse one now. It can only be viewed as a greedy attempt by organized labor to protect and increase the already high wages paid in the industry at the expense of output, exports and jobs elsewhere in the economy, consumers, and the general U.S. economic interest. Not content with extending protection through Japan's so-called "voluntary export restraint," organized labor would create an uncompetitive domestic industry behind a protectionist shield.

The auto industry is in a boom, and no protection is needed. Huge profits are being made through a moderate volume—high price strategy. The restructuring and recovery of the auto industry removes the last shred of justification for new protection.

Domestic content legislation would cost consumers up to $18 billion, and would have a minimal employment effect. Indeed, it might well cost the U.S. economy jobs. It is likely to reverse the trend toward foreign investments in the United States. It would damage the prospects for a viable, competitive U.S. industry from emerging later in the decade, by blocking new sourcing strategies and increasing labor costs. And it might trigger a new round of trade wars.

Enactment of domestic content legislation would cause the United States to violate its international obligations under the GATT. Domestic content requirements constitute internal "mixing requirements" prohibited by Article III(5) of the GATT. The penalty ceilings for failure to meet the required domestic content radio would be an import quota prohibited by Article XI(1), and the impact of the legislation would "nullify and impair," under Article XXIII, benefits expected by other parties to the GATT.

### *I. Introduction*

The United States automobile industry continues to press for additional import protection in the form of domestic content legislation. This protection would be in addition to the extraordinary relief the industry has received as the result of the so-called "Voluntary Export Restraint" (VER) practiced by Japan since March 1981 and now extended through March 1985. Domestic content legislation is also being pushed despite the remarkable recovery the U.S. auto industry has enjoyed since 1982.

Protectionist pressure in automobiles dates to 1980, when the industry attempted but failed to receive escape clause relief under Section 201 of the Trade Act of 1974. Despite an intensely political atmosphere, the United States International Trade Commission determined that imports were not a substantial cause of injury or threat thereof to the U.S. industry. Instead, the Commission found that recession, high interest rates, and the shift in consumer demand toward small, fuel-efficient cars were the principal causes of Detroit's distress. Failing to secure protection through established procedures, the industry brought direct pressure on Congress to enact highly restrictive quotas on imported automobiles (the "Danforth Bill"). In early 1981, with the fate of that legislation uncertain, Japan succumbed to strong pressure from the Reagan Administration and agreed to roll back and limit auto exports to the U.S. market to 1.68 million units per year for three years. Despite strong recovery in the United States industry evident by Fall 1983, the Japanese were pressured into extending the VER program an additional year to March 1985 at the level of 1.85 million units. One can only speculate on why Japan agreed to extension, but certainly the misalignment of the dollar, Japan's massive trade surplus with the United States, and the drumbeat of anti-Japanese statements emanating from Congress and some parts of the Administration, must have influenced its decision.

Not content with extraordinary relief through VERs, organized labor has pushed for domestic content legislation that would force all producers selling in the United States market, foreign and domestic, to manufacture a high proportion of the value of an automobile in the United States. The first such bill passed the House in 1982 but died with the 97th Congress. H.R. 1234 was introduced in 1983, and would require a sliding domestic content radio as follows:

| *U.S. sales level* | *Domestic content ratio (percent)* |
|---|---|
| 1985 model year: | |
| Less than 100,000 | 0 |
| 100,000 to 900,000 | 3–30 |
| Over 900,000 | 30 |
| 1986 model year: | |
| Less than 100,000 | 0 |
| 100,000 to 900,000 | 6–60 |
| Over 900,000 | 60 |
| 1987 model year: | |
| Less than 100,000 | 0 |
| 100,000 to 900,000 | 10–90 |
| Over 900,000 | 90 |

S. 707, introduced March 8, 1983, would establish the same scale for domestic content. Both bills require stiff penalties in the form of reduced quotas in subsequent years for firms that fail to meet domestic content requirement.

H.R. 1234 passed the House in November 1983 by a margin of 219 to 199. S. 707 remains in the Senate Commerce Committee and will be the subject of hearings beginning on May 16, 1984. The Reagan Administration vigorously opposes the legislation.

As demonstrated below, domestic content legislation was never a sound idea, and whatever appeal it once had has evaporated as the United States automobile industry has restructured itself and entered a boom period.

### *II. United States auto industry booms: Protection unnecessary*

By virtually any measure the United States auto industry is in a remarkable recovery from the recession of 1980–82. Table 1 displays the impressive turnaround since 1981: sales are up 24% in volume, value of shipments are up 55%, consumption of autos is up 20%, average car prices are up 33%.

Total average employment is up 13 percent from 1982 to 1983, with 100,000 production workers recalled during 1983. The unemployment rate has been cut from 23 percent to 10 percent from year-end 1982 to year-end 1983, and the majority of those now unemployed in the domestic industry have been the victims of automation and robotics, not of Japanese import competition.

TABLE 1.—UNITED STATES AUTO INDUSTRY PROFILE OF RECOVERY [1]

| | 1981 | 1982 | 1893 | 1984 estimated | Percent change 1981–84 |
|---|---|---|---|---|---|
| Sales (millions cars) | 6.2 | 5.7 | 6.9 | 7.7 | +24 |
| Value of shipments (billions) | $74.3 | $70.6 | $97.9 | [2] $115.4 | +55 |
| Consumption (millions cars) [3] | 8.5 | 8.0 | 9.2 | 10.2 | +20 |
| Employment (thousands workers) | 272 | 244 | 265 | 275 | +1 |
| Unemployment rate (percent) [4] | | 23 | 10 | | |
| Average new car price [5] | $8,850 | $9,910 | $10,725 | [6] $11,780 | +33 |
| Profits (billions) | −$1.3 | $1.6 | $6.1 | [7] $10 | [8] +525 |

[1] Source "U.S. Industrial Outlook 1984" unless otherwise noted.
[2] Estimated using average annual price increase 1982–83.
[3] Includes imports.
[4] Yearend.
[5] Automotive News "1984 Market Data Book."
[6] Trend projection.
[7] Estimate, New York Times, Apr. 16, 1984.
[8] From 1982.

Profit figures are dramatic. Total industry earnings for 1983 were $6.1 billion, more than wiping out the prior cumulative three years' loss of $5.2 billion. 1983 earnings by company were:

| | *Billions* |
|---|---|
| General Motors | $3.7 |
| Ford | 1.9 |
| Chrysler | 0.7 |
| American Motors | −0.1 |

These provide remarkable profits per car sold. For example, with 93 percent of its earnings attributed to U.S. operations, General Motors' profit per U.S. car produced amounted to $868. Profits for the industry are expected to grow an additional 64 percent in 1984 and reach a record $10 billion. Nor has executive compensation been neglected. The Chairman of General Motors, Roger Smith, received $1,500,000 and the Chairman of Ford, Phillip Caldwell, $7,300,000 in pay, bonus, and stock options in 1983, for leading a company that earned $1.87 billion in 1983. Overall, General Motors paid 5,807 executives $181.7 million in bonuses in 1983; Ford paid 6,035 executives 1983 bonuses totalling $80.6 million.

It is now clear that the strategy of the U.S. auto makers is to use the protection provided by the VERs with Japan to maintain and increase car prices, building high profits per unit sold, rather than to lower prices and attempt to regain market share lost to imports.

And indeed the industry is substantially restructured and revitalized, and able to make profits at much lower production levels than previously. Between 1978 and 1982 domestic auto producers invested over $51 billion, mostly in the United States, in a new plant, equipment, and tools, in order to build more fuel efficient and higher quality cars. The U.S. Department of Commerce documents the restructuring:

"Since 1978, the U.S. automotive industry had demonstrated its ability to adapt to altered market conditions. It has completely transformed its vehicle lines through record-high levels of capital spending accompanied by massive cash flow deficits. Reduction in unit labor costs, supplier related costs, and inventory costs have brought costs of production under control. Productivity has improved through the use of innovative management techniques, increased employee involvement, and greater use of robotics. The result is that the U.S. automotive industry now offers motor vehicles that are better able to meet the challenges of intensified import competition. Improving general economic conditions will allow U.S. motor vehicle manufacturers to continue plant moderation and new product programs."

The recovery of the U.S. auto industry and especially its restructuring cast an entirely new light on domestic content legislation. Even during the worst of the auto recession it is unlikely that domestic content legislation would have produced sustained relief to the industry. Now, in the midst of a major boom and having undertaken substantial adjustment, the last shred of justification for additional protection has disappeared. Although the need no longer exists, if it ever did, the very significant costs and inefficiencies associated with domestic content legislation remain. Indeed, such legislation could easily weaken the long run competitive position of its industry.

### *III. Domestic Content Legislation: Costly, Inefficient, Ineffective*

Domestic content legislation acts like a quota. Any manufacuturer, domestic or foreign, must either reduce his U.S. sales to a level consistent with the existing structure of his domestic content, or attempt to establish increased production in the United States.[5] Both choices lead to a reduction in imports, just as a quota does.

For example, Nissan Motors, whose domestic content is currently about 5 percent, and whose 1983 U.S. sales were 522,000 autos, would have to limit its sales to 100,000 by 1987, a reduction of 422,000 units, because it would be impossible for Nissan to achieve domestic content of 52 percent. Domestic content would force Nissan to severely cut back its imports to avoid the penalty provisions, even if Nissan did manage to slightly increase its domestic content. Domestic content would have the effect of a very restrictive quota.

Virtually all of the economic studies of domestic content legislation that have been done in the past three years reach similar conclusions with respect to consumer costs, car prices, inflation, and the minimal employment gain. A selection of conclusions from these studies illustrates this point:

| | |
|---|---|
| U.S. Department of Commerce analysis of H.R. 1234: | |
| Total consumer cost (billion) | $4.8 |
| Deadweight (efficiency) loss (billion) | $3.1 |
| Increase in CPI (percent) | 0.16 |
| Increase in U.S. production (units) | 195,000 |
| Average car price increase (percent) | 4.5 |
| Net job gain | 7,500 |
| Jobs at risk from retaliation | 132,000 |
| Consumer cost per jobs gained | $740,000 |
| Wharton econometric forecasting: | |
| Total consumer cost (billion) | $18 |
| Average car price increase (percent) | 10 |
| CPI (1986) (percent) | 0.1 |
| GNP growth (1986) (percent) | −0.1 |
| Gross job gain (1991) | 58,000 |
| Gross job loss (1991) | 423,000 |
| Net job loss (1991) | 365,000 |
| Temple, Barker and Sloane: | |
| Annual cost to consumers (billion) | $3.3-$3.1 |
| Net job gain | 37,172—43,218 |
| Consumer cost per job gained | $89,000-$72,000 |

The implication of these and other studies is clear. Domestic content legislation would be extremely costly and inefficient, and would have a minimal positive impact on U.S. employment. Considering likely retaliation, a substantial net job *loss* could emerge.

The U.S. consumer would be most seriously injured. Prices would increase, and consumer choice would be severely limited. Sticker shock is already severe, with average new car prices in excess of $10,000 and climbing. Whereas the average factory worker could buy a new car by working 28 weeks in 1973, this jumped to 32 weeks in 1980, and almost *38* weeks in 1983, since the restrictions on Japanese exports went into effect. The impact is most severe on lower income consumers, who cannot afford the "upgrading" into more expensive models and equipment that the VERs stimulated. Domestic content legislation, which is aimed directly at Japan, could easily eliminate the few remaining low priced models that are still available to U.S. consumers.

But there are more subtle reasons why domestic content legislation would be damaging to the U.S. and world economy, and indeed to the longer run competitive position of the U.S. auto industry.

First, domestic content legislation might actually discourage the trend of foreign manufacturers to invest in the United States. In recent years this investment has been substantial and very beneficial. Honda has established a $490 million auto assembly plant in Ohio. Nissan has invested $650 million for a light truck plant in Tennessee with an additional investment of $350 million planned. Toyota will invest $150 million in its joint venture with GM. Volkswagen has a $300 million investment in Pennsylvania and another $175 million invested in West Virginia. Renault invested $350 million in American Motors, allowing that firm to continue production in Wisconsin. Domestic content would put these investments in jeopardy, as the firms, despite their U.S. investment, require substantial imported components to keep the operations viable. The President of Nissan Motors states that their response to H.R. 1234 might well be to export low cost, high profit autos up to the quota limit, an cut back or eliminate production in the U.S.

Second, domestic content legislation would damage the U.S. auto producers' "world car" strategy, which offers the best longrun promise for survival. That strategy has two components—medium-term sourcing of small, low cost, low profit vehicles from foreign producers, and an increasingly integrated world market in components and parts. For example, General Motors had planned to round out its porduct line by importing 400,000 small cars from Suzuki and Isuzu, and from its Korean partner. Ford an Chrysler have similar plans. Domestic content legislation would prevent them from doing so, and would leave them in a weakened competitive position in small cars. Similarly, foreign sourcing of engines, transmissions, transaxles, and other components has reached significant levels and is expected to increase. Internationalization of components also offers better opportunity to domestic parts manufacturers for export. The export opportunities and the cost reduction from foreign sourcing are essential to the health of the domestic industry. Domestic content legislation would severely damage these encouraging developments.

Third, by insulating the U.S. market from competition, domestic content would encourage excessive wage increases and weaken the long-run competitive prospects of the U.S. industry. Indeed, high wages, averaging $25 per hour (more than double the U.S. average hourly wage), are already a problem, and labor is committed to a policy of "restore and more" in coming wage negotiations. The pressure for a wage spiral in a major oligopolistic manufacturing sector protected from import competition is reason enough to oppose domestic content legislation. It is simply unfair for American consumers, the majority of whom are working at a lower average wage per hour than the UAW worker, to support the UAW's bloated wage structure as well as the obscene management bonuses auto executive have showered upon themselves.

Fourth, domestic content legislation would be directly counter to the U.S. commitment to reducing foreign local content schemes. This effort has been a major element in recent U.S. trade policy, and it would be severely damaged if domestic content legislation for autos were introduced here. In fact, no other developed country except Australia, New Zealand, and Spain, and no country that participates in producing for the world auto market, has local content requirements for automobiles. The damage that would be done to U.S. efforts for trade liberalization, likelihood of retaliation, and the flood of similar requests from other industries that would surely result, are strong arguments against domestic content legislation.

Finally, the fabric of international trade rules has been seriously damaged in the recent world-wide recession. Protectionism is not creeping—it is surging in important sectors such as steel, textiles, and agriculture. Domestic content legislation would almost certainly lead to the world-wide cartelization of the world car industry, with spillovers into other sectors. The U.S. auto industry would suffer directly. But the general U.S. economic interest would suffer more. Economic interdependence is a fact. The recent world recession, and the unprecedented decline in world trade, shows that the international economy remains fragile and vulnerable. It would be unfortunate in the extreme if protectionist legislation for autos, that is both grossly inefficient and completely unnecessary, were a trigger for a renewal of trade wars.

## *IV. Domestic Content Legislation Would Cause the United States To Violate Its International Obligations*

### A. The Domestic Content Provisions Proposed by H.R. 1234 and S. 707 Constitute Internal "Mixing Requirements," Which are Prohibited by Article III(5) of the GATT

Article III(5) of the General Agreement in Tariffs and Trade (GATT) states as follows:

> "*No contracting party shall establish or maintain any internal quantitative regulation relating to* the mixture, processing or use of products in *specified amounts or proportions which requires,* directly or indirectly, *that any specified amount or proportion of any product which is the subject of the regulations must be supplied from domestic sources.* Moreover, no contracting party shall otherwise apply internal quantitative regulations in a manner contrary to the principle set forth in paragraph 1. (emphasis added)

Paragraph 1 asserts, in pertinent part, that

> "[t]he contracting parties recognize that . . . *laws, regulations and requirements affecting the internal sale,* offering for sale, purchase, transportation, distribution or use of products, and *internal quantitative regulations requiring* the mixture, processing, or *use of products in specified amounts o proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.*" (emphasis added)

These provisions prohibit, among other things, "mixing requirements," which are a device for protecting domestic production by requiring that imports or domestic sales of a particular product contain a specified proportion of domestic content. The domestic content requirements proposed by H.R. 1234 and S. 707 are precisely such devices. Insofar as the bills would require the use in imported automobiles of varying proportions of U.S. content based on sales levels, it would directly conflict with Articles III(5) and II(1) of the GATT, quoted above.

### B. The Penalty Provisions of Both Bills Would Require the United States to Violate Its Obligations in Article XI of the GATT not to Impose Quantitative Restrictions Upon Imports

Both H.R. 1234 and S. 707 would require the Secretary of Transportation to impose, as a penalty for failure to meet the domestic content requirement in any model year, a specified ceiling (i.e., quota) on the number of vehicles which a manufacturer could import for a 12-month period. Both the penalty quota and the required domestic content are functions of sales volume. The penalty ceiling would have the effect of an import quota. Such import quotas are flatly prohibited by Article XI(1) of the GATT, which states:

> "*No prohibitions or restrictions other than duties,* taxes or other charges, *whether made effective through quotas,* import or export licenses, or other measures, *shall be instituted or maintained* by any contracting party on the importation of any production of the territory of any other contracting party * * *" (emphasis added)

There are certain exceptions to this prohibition upon the use of quotas and quota-like restrictions, but none of these exceptions would cover the demestic content requirements and accompanying penalty quotas called for by S. 707 and H.R. 1234.

### C. The Bills Would Constitute a Nullification or Impairment of Benefits Accruing to Other GATT Contracting Parties and Thus Could Be Successfully Challenged Under Article XXIII of the GATT

Article XXIII of the GATT permits contracting parties to initiate formal complaint proceedings whenever any direct or indirect benefit to the complaining party under the GATT is being "nullified or impaired" as a result of:

> "(a) the failure of another contracting party to carry out its obligations under [the] agreement, or
>
> (b) the application by another contracting party of any measure, whether or not it conflicts with the provisions of the agreement, or
>
> (c) the existence of any other situation * * *".

These broad criteria would permit affected contracting parties, principally Japan and the European Communities, to bring formal GATT complaints against the United States both on the ground that the proposal specifically violated U.S. obligations under the GATT, and on the ground that domestic content legislation "nullified or impaired" GATT benefits to those countries.

There can be no reasonable doubt that the GATT would find the legislation to be in violation of U.S. obligations under the GATT, as described above, and would also find that the proposals nullified or impaired GATT benefits to other contracting parties. Specifically, the benefit that would be nullified or impaired would be the reasonable expectation of other contracting parties that the U.S import duty rate for automobiles, which was "bound" (or guaranteed) at 2.9 percent for 1981 with a gradual reduction to 2.5 percent by 1987, would not be undermined by the imposition of the domestic content requirements and any penalty quota imposed on individual manufacturers. It would not be difficult to show that the trade of Japan and the EC had been adversely affected by the proposal.

Even if retaliation were not formally authorized and implemented for several years following a finding by a GATT panel, the dispute resulting from the unsatisfied panel finding would be an enormous irritant in U.S. economic relations with its major trade partners and a symbol of U.S. protectionism that would strongly encourage trade-restrictive actions by other nations.

The CHAIRMAN. Mr. MORRIS.

Mr. MORRIS. Thank you, Mr. Chairman. I am very pleased to have the opportunity to meet with you today and to present our association's reasons for opposing the Fair Practices in Automotive Products Act, S. 707.

I guess it might be fair to say that we like the title very much, but find the script somewhat wanting. But as surely as we believe that S.707 is not the way to go, we are nevertheless pleased that it has helped to focus Congressional attention on the high cost of Japan's restrictive practices to U.S. automotive suppliers.

Our association believes that the development of policies to meet the Japanese challenge to our vital industry's future must move to the head of the Congressional and administration agendas. This is especially important, given the likelihood that Japan's VRA, the Voluntary Restraint Agreement on automobile exports, may end next March, opening the U.S. market to more exports, bearing little or no American content.

APAA's concerns about S. 707 are offered from our perspective as representatives of some of both original equipment and aftermarket suppliers. APAA believes:

(1) The factors which have provoked a wrenching transition in our industry include a steep decline in U.S. auto production, moves by domestic auto makers toward world car production, greater foreign sourcing necessary to contain costs, and a shrinking domestic market.

The critical challenge born of this transition is that American automotive suppliers must export more if they are to sustain a viable place in the world. If present economic trends continue, we face the permanent shutdown of many plants and the loss of some 400,000 supplier jobs forever. The sharp drop in sales revenues and high interest rates have left us starving for the capital we need if parts producers and the auto makers we supply are to successfuly withstand increasingly effective foreign competition.

(2) Success in meeting the export challenge, and indeed, the very survival of the aftermarket industry is important to American success in cracking Japanese original equipment and replacement market.

Japan's impenetrable original equipment market and their cars that now dominate world markets and command a hefty 20.4 percent of America's new car market foreclose our penetration of the replacement parts market in Japan, the U.S, and third countries.

APAA-backed negotiated assaults on Japan's nontariff barriers have proved futile, as was so aptly noted in the House Energy and Commrece Committee's report on the 1982 legislation, H.R. 5133.

Japan has vowed to usurp our position as the world's leading parts producer. To that end, more than 25 years of nationalistic production incentives and tight family-type relationships between vehicle makers and their suppliers has created unnatural parts industry growth. Despite our best efforts, our companies are stymied by a tortuous route of approval and specifications, and the Japanese aversion to dealing with independent parts makers.

Denied the volume assured by original equipment sales, and faced with a proliferation of Japanese models, the American aftermarket suppliers cannot achieve the economies of scale necessary to compete for replacement business. Leading to further replacement market erosion is the closed parts distribution web that Japan has woven for its home market and foists on its United States and worldwide dealership network.

In the United States alone, these barriers cost us billions in lost sales. Japanese claims of poor U.S. price and delivery are especially bizarre when dealing with American suppliers on their home turf. We are exporting our plant capacity and jobs for products that we are qualified to manufacture.

(3) The bill's objectives of curbing foreign sourcing by U.S. auto makers and encouraging foreign auto making investment in the United States would shatter the recovery prospects for our domestic auto makers and suppliers.

Denied flexibility in deciding how they will use foreign sourcing to build competitively priced cars, our auto makers could be trapped in an ever-downward spiral of lower production and a sharply curtailed demand for American-made original equipment and replacement parts. And, lower production of cars and parts, at higher unit costs, also would hurt American consumers who would suffer additional losses in the domestic market as the foreign beneficiaries of the relaxed 3-year phase-in gained more ground in the battle for domestic market share.

When we consider as well the floodgates that will open when the VRA ends, we believe those 3 years will prove especially damaging to our firms. Even when phased in, most companies could comply without opening their doors to an extra dime of American original equipment.

The foreign-owned assembly lines in the United States, fed by Japanese parts plants, would also prove inimical to our interests. Under more balanced conditions, we would not fear increased foreign competition within our borders. However, a number of our plants are operating at such low capacity that they are easy prey for cash rich parts makers who are already following Japanese auto makers to the United States.

Should larger firms decide it is not cost effective to build cars in the United States, the bill would be tantamount to an import quota, leaving our exports vulnerable to retaliatory steps which could be taken under GATT. American consumers would pay dearly for the quota, both in limited selection and in sticker shock.

Hence, the bill not only fails to win access to Japanese markets, but would undermine our present market position with staggering effects for American sales, workers, and consumers.

Four, we must put local content legislation behind us, and move on to the important work of implementing policies before the VRA ends. It would be tragic indeed if the Congress and the administration were to subscribe to the notion that higher domestic auto production means nothing more need be done.

Let me assure you we cannot rely on domestic auto production to save our industry. We would caution that even in this supposedly strong year, auto sales are projected to rise to just 10.5 million units, including 2.5 million imports. Moreover, Japanese production cost advantages and competitive pressures within the American industry are driving U.S. auto makers to hire Japan and others to make their small car lines. The tragic result is that suppliers lose both ways.

The CHAIRMAN. Mr. Morris, you have a statement that is about 40 pages long. I will put it all in the record, but I must ask you to conclude so we can get to the other witnesses.

Mr. MORRIS. I would gladly conclude just by saying, Mr. Chairman—I am sorry I have even taken this long—that in talking about jobs earlier, the livelihoods of American supply workers and the equity interests of millions of entrepreneurs and shareholders are at stake. APAA stands ready, Mr. Chairman, to work with you and the members of this committee and others in the urgent business of developing responsible solutions to these problems.

Thank you.

The CHAIRMAN. Thank you, sir.

[The statement follows:]

## STATEMENT OF JULIAN C. MORRIS, PRESIDENT, AUTOMOTIVE PARTS AND ACCESSORIES ASSOCIATION, INC.

Mr. Chairman and Members of the Committee: My name is Julian Morris, and I am the President of the Automotive Parts and Accessories Association (APAA). I am pleased to have the opportunity to meet with you today and to present APAA's reasons for opposing The Fair Practices in Automotive Product Act (S 707).

APAA is a trade association located in Washington, D.C., comprised mainly of 1500 manufacturers, independent manufacturers' representatives, distributors, and retailers of automotive parts and accessories sold primarily, but not exclusively, in the "aftermarket." The aftermarket consists of products manufactured for and service provided to automobiles by manufacturers, distributors, and retailers that are independent of the original auto manufacturers (the "OEM market").

The aftermarket is vital to this nation's economy, providing at least *double* the employment of the vehicle manufacturers and their dealers. In matters affecting the automotive industry, however, we often are overlooked due primarily to our size, numbers and geographical distribution—we are hundreds of thousands of medium and large but mainly small manufacturers, retailers, distributors, and sales agents located in every state of the Union producing and selling domestically in excess of $54 billion of parts, accessories and chemicals annually. Appendix A[1] to my statement provides more details about the aftermarket.

Industry firms also play a key role in the nation's export performance and balance of trade, exporting some $10 billion of automotive products in 1983.

And, as has been demonstrated by past mobilization efforts, the automotive supplier industry plays a critical role in national defense.

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[1] The appendices and other attachments were not reproducible and have been retained in the committee files.

## INDUSTRY IN TRANSITION

The American parts and accessories industry continues to suffer the consequences of more than four years of depression in the domestic automobile industry. With sales of domestic passenger cars still well below 1978 pre-recession levels, and with historically unprecedented deferral of auto repairs and maintenance by the public, our financial position in aggregate is not healthy.

Japan's auto makers have exacerbated our industry's crisis by including little or no U.S. content in vehicle exports that not only dominate world markets in 1983. Japan's lock on its original equipment market, in turn, has foreclosed our firms' penetration of the lucrative replacement parts market in Japan, the U.S., and third countries.

These conditions have resulted in soft sales and the idling of many plants and people in an industry where operating under capacity is most unusual.

From its peak in 1978, the real value of domestic parts and component producer shipments have dropped 38 percent. Profits have fallen so dramatically that the Commerce Secretary's 1982 report on the industry found the after-tax return on sales of 17 larger firms studied skidding from 4.8 percent in 1978 to 1.5 percent in 1982.

Plummeting supplier industry output has resulted in at least 100 underutilized plants closing between 1978 and 1981. This data—the most up to date available—only tells part of the story. The Transportation Secretary's 1981 report concedes that "available information on auto-related layoffs and plant closings in the supplier sector is less complete than for the prime (auto) manufacturers."

As American firms close their plant gates forever, the consequences have been most tragic for our firms' employees. Two studies conducted for the 1981 industry report indicate that "approximately 500,000 U.S. supplier jobs have been lost due to the industry downturn, with over 90 percent of those job losses concentrated in the industrial Midwest states."

These dramatic findings are corroborated by the 1981 Arthur Andersen study of the competitiveness of the U.S. industry and its parts suppliers. The chart, which I have attached as Appendix B, depicts a drop of 500,000 supplier jobs from a 1978 peak and projects the permanent loss of 400,000 supplier jobs by 1985 if present economic trends continue.

High interest rates continue to play a major role in the automotive products industry's financial dilemma. Just last week, the nation's major banks hiked their prime lending rate to 12.5 percent, the highest rate since October, 1982. The long period of capital market instability has hurt all firms, but especially those thousands of small businesses who are forced to finance their long terms debt needs with volatile short term debt instruments.

Our firms want to invest substantial capital in efficient, less costly production facilities in order to grapple with increasingly effective foreign competition. A 1982 Commerce Department industry study forecasts that capital starved U.S. auto makers will source an increasing share of their original equipment parts from independent manufacturers and projects "greater participation by suppliers in the vehicle manufacturers' product development programs."

This reaffirms the conclusion of the Secretary of Transportation's 1980 report to the President on the automobile industry that: "In their move to economize, the leading automakers will be leaning heavily on suppliers for research and engineering development necessary to produce the better quality and less costly components of the future." The report adds that "suppliers unable to upgrade their facilities, take risks, or sponsor research will lose out to suppliers with competitive advantages of efficiency, size or technical know-how."

The industry desperately needs capital to engineer, design, and tool for new products; to adapt existing products for the latest model vehicles an cope with the proliferation of parts that comes with burgeoning proliferation in models from around the world. All of this must be accomplished at competitive prices and with the assurance of a return on investment.

## JAPAN THREATENS INDUSTRY SURVIVAL

We believe, Mr. Chairman, that the very survival of our industry hinges on American success in cracking the Japanese original equipment and replacement markets. We intend to demonstrate that far from helping our firms gain access to these markets, S 707 would actually doom our objectives.

But, as surely as we believe that S 707 must be defeated, we also are pleased that it has helped focus Congressional attention on the high cost of Japan's restrictive practices to U.S. automotive suppliers.

We believe that the Congress must explore and develop remedies to the injury Japanese practices have inflicted on our industry. This is especially important, given the fact that Japan's Voluntary Restraint Agreement (VRA) on automobile exports may end next March, opening the U.S. market to countless more imports with little or no American value added.

We would like, therefore, to introduce here a thorough discussion of Japanese automotive trading practices as background information for Members who wish to formulate viable solutions to this vital industry's problems. Left unchecked, these practices will prevent the capital formation our firms need to avoid a tragic downward sprial of noncompetitiveness.

In 1960, the U.S. produced over 52% of the cars made worldwide; Japan produced only 1.3%. In 1970, the U.S. share had fallen to 29%; Japan was up to 14%. By 1980, Japan had passed us as the frontrunner of car producing nations with over 24% of the world market; we were down to under 22%.

The unnatural growth in productivity and price competitiveness of the Japanese auto parts industry is not simply a function of optimal management practices and production techniques. The Japanese vehicle manufacturers have a long established family relationship with most of their parts suppliers consisting of interlocking directorships and equity positions, under the aegis of the Central Bank's traditional practice of selective access to credit. This has resulted in a highly nationalistic, inbred, protected an virtually impenetrable vehicle manufacturer-supplier environment in that country.

Harbridge House Vice President Johon B. Schnapp has researched the "really close, symobiotic relationships between the vehicle makers and their principal suppliers." According to Schnapp, "these relationships are manifested in investments, in loans, and in technological interchange." He adds that very often the auto makers "own more than token equity positions in their leading suppliers" and frequently act as a "source of loan capital to their suppliers and as a technological resource."

With "families of vendors surrounding each of the principal auto makers," Toyota and Nissan, Mr. Schnapp concluded that "there are relatively few truly independent parts makers."

With the title of the world's Number 1 auto producer under their belt, the Japanese have now set their sights on usurping our position as the world's leading parts producer. It plans to reach that goal in the 1980's according to a 1980 report by its Long Term Credit Bank.

Decades of protectionism, such as amazingly low tax rates, enormous asset depreciation and deferred taxes for costs of developing new export markets, kept competitors at sea. The Japanese government in a 1979 publication entitled *Your Market in Japan: Automotive Parts and Accessories* describes in part its nationalistic production incentives and industrial targeting:

Developing and upgrading the names of transport is indispensable for the development of a country. Therefore, from the late 1950's on when the future of Japanese industry began at long last to look brighter, both the Japanese government and industry made an all-out effort to develop and nuture the motor vehicle industry.

The auto-parts industry in particular had to be cultivated and strengthened as it is the foundation of the auto industry as a whole. At the outset, the Japanese auto-parts industry was a sector with a large number of small-size and financially weak firms. But with the help of various government measures, such as the Law for Temporary Measures for Promoting the Machinery Industry enacted to foster and strengthen fundamental industrial sectors in the machinery industry in Japan, the Japanese auto-parts industry achieved rapid growth.

These policies have paid off for the Japanese.

The toll for being locked out of the aftermarket for Japanese vehicles in Japan, here and in third countries has risen considerably in recent years as the worldwide car population fills increasingly with Japanese vehicles. In 1960, Japan exported 4.2% (7,000 units) of their domestic vehicle production. Today the Japanese export over 36% or nearly 4 million vehicles. By contrast we export less than 9% of our domestic production. More than 46% of the Japanese cars exported in 1980 ended up within the borders of the U.S. Only 1% of our U.S. car exports were able to penetrate Japan's home market.

## U.S. NEGOTIATIONS ATTEMPT TO OPEN ORIGINAL EQUIPMENT MARKETS

With the very survival of the aftermarket industry hinging on success in entering the Japanese original equipment and replacement markets worldwide, we applauded government efforts that led Japan to issue its 1980 Orderly Marketing Agreement for parts trade. A key element was a Japanese parts purchasing mission to the U.S. in September, 1980, and the subsequent Japanese commitment to purchase $300 million in American original equipment in 1981, with significant increases promised thereafter.

Although the huge $1 billion parts trade deficit with Japan in 1980 made the $300 million look somewhat anemic, nonetheless APAA welcomed the promise as a potentially important first step to better market access. Regrettably, the Japanese fell far short of even this modest goal.

Commerce Department figures for 1981 showed only $119 million in U.S. parts sales to Japan, a nominal increase over 1980's figure of $109.8 million, but a major step backward when adjusted for inflation. Japan, on the other hand, enjoyed auto related sales in the U.S. exceeding $1.8 billion in 1981, leaviang the U.S. in a deficit position of more than $1.6 billion.

Even more distressing is the fact that the much publicized tariff reductions on automotive products nearly exclusively covered labor intensive items that did not appear on the list targeted for purchase. Rather, the list that continues to interest Japanese auto makers includes energy intensive items such as glass or aluminum and from year to year their purchases of these products hover near the $100 million mark.

Most regrettably, Japan used its Voluntary Restraint Agreement on autos to excuse itself from its parts purchasing commitment and reneged on its commitment to meet with U.S. negotiators during 1981 and 1982 to monitor the mission's progress. Quite expectedly, the Commerce Department 1982 survey of U.S. firms that sought Japanese business showed the mission to be an exercise in futility. Exports to Japan in 1982 were a paltry $128 million. I have attached as Appendix C the complete set of the department's survey findings.

We contend and the Commerce Department backs us up that this staggering imbalance is not caused by the lack of quality or price competitiveness on the part of U.S. made products. Nor can the root of the problem be attributed to a strong U.S. dollar, high interest rates or U.S. apathy in developing the Japanese market.

The fundamental cause is Japan's longstanding policies and practices which encourage exports and discriminate against imports.

In spite of the recent demise of the Japanese import duty, the delivered prices of foreign vehicles in Japan remains significantly high. This is due to the import bias which tinges the Japanese commodity taxes; a tax which exempts exports but is imposed on imports. Then there are the certification requirements, local distribution methods, and road taxes which discriminate against the larger engines of U.S. models.

These obstacles combined with a panoply of other non-tariff barriers againt U.S. origin parts—including the withholding of parts specifications developed behind doors closed to us; an unwieldly parts approval system; and that uniquely strong alliance between vehicle and parts makers—generally have conspired to prevent outside competitors from penetrating the walls of their safe and secure world. I have attached as Appendix D my 1980 testimony before the Senate Select Committee on Small Business detailing specific cases of non-tariff barriers.

Despite the numerous waves of Japanese trade liberalization promises to hit over the last two years, industry analysts have found little of value for the U.S. automotive and related industries. In fact, Japan's 1983 proposal to simplify vehicle import inspection actually drew fire from U.S. industry. General Motors President F. James McDonald concluded that instead of facilitating auto trade, the inspection and certification changes "actually favor Japanese models more now than before." Due to the structure of the new rules, McDonald argues that low-volume sellers such as U.S. auto makers "would incur huge cost penalties if we were to use these more liberalized procedures." Despite the fact that the U.S. exported only 3,562 passenger cars to Japan in 1982, down from a scant 7,742 in 1981, Japan is reluctant to reciprocate on the self-certification to safety and noise requirements afforded its exports to the U.S.

It would appear that negotiations and agreements have not substantially changed the sad state of U.S.-Japan trade relations. Our manufacturers still face a general inability to penetrate the Japanese original equipment market.

## EFFORTS TO OPEN AFTERMARKET FAIL

As the world fills with Japanese-made vehicles bearing little or no American equipment, American aftermarket suppliers are faced with constricting global replacement markets. Leading to further replacement market erosion is the unusually strong hold Japan's car makers have on their dealers in the U.S. and world markets, whereby they are coerced to stock only Japanese-made service parts.

Aftermarket barriers in the U.S. alone cost American suppliers billions of dollars in lost sales opportunities for items such as batteries, lights, fan belts, starters, tires, and so on. Cracking this market means so much to the vitality of our industry that American negotiators insisted that steps to open the dealership network be a component of Japan's Orderly Marketing Agreement. As with the other elements, it proved meaningless. When the Department of Commerce allowed to lapse the task of monitoring the original equipment purchases, the aftermarket issue became a casualty of neglect.

Letting Japan off the hook on its promise to open the dealership network was further exacerbated by a highly inaccurate Japanese commissioned study that said the independents' share of the import market in the U.S. was growing so fast that nothing more be done. APAA fought for industry's right to review the study which was locked inside the Commerce Department for several months. Once APAA secured the study, we refuted it with our own critique which we have shared with the Administration and Congress. Our comprehensive analysis of the study is attached as Appendix E.

As former Assistant Secretary of State Robert Hormats testified in 1981 "this market (U.S. aftermarket) is one in which U.S. firms should be able to compete actively and successfully. But it has been very hard for American firms to penetrate this market, and Japanese firms appear reluctant to fully cooperate with them, while Japanese parts sell vigorously." Hormats added that Japanese claims of poor U.S. price and delivery simply do not apply when dealing with American suppliers on their home turf. Yet, a Department of Commerce suggestion to have U.S. made parts certified so that dealers of Japanese vehicles could purchase them has met with stiff Japanese resistance.

## JAPANESE PRACTICE CLOSED DEALERSHIP NETWORK

Clearly, Japan's auto makers intend to foist on the U.S. and other markets the same closed distribution web it has woven for its home market. Indeed, in Japan there is almost no independent aftermarket as we know it. Harbridge House executive, John Schnapp, has cited the 1981 edition of *Guide to Japan's Auto Parts Industry* that concludes "the independent distribution channel is weak in comparison with vehicle dealer organizations." According to Schnapp, the author, Mr. Kenji Okochi, whose export company represents parts markets, describes the "reasons for this peculiar phenomonon." Chief among reasons offered is "that each vehicle maker signs an exclusive contract with the parts maker which may allow him to control the production of parts applications for his vehicle." By way of contrast, the U.S. aftermarket for domestic vehicles is so open that a 1980 study by A.T. Kearney revealed that only 18% of parts sales for GM passenger car applications were realized through franchised GM dealers.

Ironically, the closed distribution network has victimized Japanese parts makers who see a good thing in our open marketplace but do not know how to get at it. Mr. Schnapp describes their quandary:

> On the one hand, they recognize that the structure of our market is vastly different from the replacement parts market in Japan, and they see the need to adapt their own strategies to the differences existing in the American Market. On the other hand, there are very strong pressures on them to avoid straining the relationships that they have created with their only customers who would like, of course, to channel most of the American sale of replacement parts through their own franchised dealers, much as they currently have succeeded in doing.

Still, Japan's parts makers have a leg up on our firms—tooling economics. Without the volumes assured by original equipment orders and faced with a proliferation of Japanese new car model series, it is virtually impossible for our firms to achieve the economies of scale necessary to produce economically for a particular application. The net effect is the exportation of our plant capacity and jobs to Japan.

APAA is encouraged by the growing Congressional awareness of the problems we have discussed. We believe that the House Energy and Commerce Committee report on the 1982 legislation, HR 5133, truly went to the heart of the problem:

> The Committee regards the failure of foreign automakers to purchase more American-made auto parts very seriously. As a result, Section 7 of the bill directs the Secretary of the Department of Transportation and the FCC to conduct a study to determine how to increase the use of American-made new and replacement parts by foreign manufacturers. The Committee intends for representatives of U.S. auto

workers, parts manufacturers and vehicle manufacturers to be consulted in the development of this study.

We are especially gratified that the committee sensed not only the dangers of the closed U.S. aftermarket but seized as well on the critical question of how we might increase our sales of original equipment to foreign manufacturers. Unless these markets are opened, much of our industry's plant capacity and as many as 400,000 of the supply sector's half-million unemployed will remain permanently idled.

### MEETING THE JAPANESE CHALLENGE

At first blush, one might think the current domestic auto making recovery will solve everything—no need to worry about Japan if there is plenty of demand for American original equipment and replacement parts. While we are pleased by the stepped up pace of domestic production, we would caution that even in this supposedly strong year, auto sales are projected to rise to just 10.5 million units—including 2.5 million imports. We conclude that the industry's transition and the forecast for its future spell a very incomplete solution to the problems of American parts and accessories manufacturers.

Industry analysts tell us that we will not again see the days when American parts and components were demanded for the production of 12.6 million autos and light trucks. In fact, the Delphi forecast released this year by Arthur Andersen, the University of Michigan and the Michigan Manufacturers Association projects 1985 domestic production at 10 million units and 10.5 million cars produced domestically in 1990.

The strength and duration of the domestic companies' recovery, according to Chase and other analysts, depends on their success on the battleground of small car competition. However, estimates of losses of as much as $1,000 on every subcompact sold by the Big Three and small car assembly plants operating well below capacity—despite below cost pricign—may lead to an untenable solution: U.S. auto makers may hire Japan to build their small cars.

The Commerce Secretary's 1982 industry report comments on this possibility:

> * * * the auto firms will continue to face the reality of the Japanese manufacturing cost advantage. Responding to this cost advantage durign a period of limited financial reserves has been particularly difficult. GM's plans for small cars illustrates one possible path the companies may take. GM has agreed to import 200,000 small cars annually from Isuzu starting in 1984 to market in this country. In addition, GM may bring in up to 100,000 mini-cars annually from Suzuki. When these two agreements are combined with GM's joint venture with Toyota to assemble 200,000 small front-wheel drive cars annually, the company will be able to market 500,000 modern Japanese-type cars annually with minimal capital investment.

Should General Motors carry through with these initiatives, competitive market forces will undoubtedly dictate similar small car sourcing strategies by Ford and Chrysler. We are however encouraged by the attention that long-suffering U.S. auto makers have drawn to the basis for Japan's advantage, shown by studies to be $1,500 to $2,000 per car.

Ford Chairman Philip Caldwell has charged that Japanese tax policy and the undervalued yen account for as much as $1,300 of the so-called advantage. Japan's commodity tax raises the price of cars sold in Japan, including imports, by 17 to 22 percent. The rub is that cars built for export have the tax rebated, in effect doubling the advantage—a tax disparity worth $500 to $600 per car.

Add to this the undervalued yen, the Japanese manufacturers gain an added automatic advantage over American car makers of $600 to $700 per car. For too long a weak yen has made U.S. automotive products exported to Japan far too expensive and drastically reduced the cost of Japanese imports. And of course we are placed at a severe competitive disadvantage when competing with the Japanese in third markets.

Economists agree that to remove the disparity we need to see the yen move down to 200 to the dollar or less. At present it is trading at about 240 to the dollar, giving Japanese manufacturers a whopping 20 to 25 percent price advantage.

We would ask that this Committee and others in Congress join us in urging the Reagan Administration to redouble its efforts in the U.S.-Japan Ad Hoc Committee on the Yen-Dollar to negotiate a resolution of this unacceptable disparity with the Japanese.

Finally, on the matter of cost advantage, Harbour and Associates determined in a 1982 study that just in time production accounted for $550 of the $2,200 cost advantage held by Japan in subcompact car production. A stronger U.S. supplier industry could provide similar savings to domestic car makers and help avert the exportation of U.S. small car production.

We recognize tht the entire discussion of Japan's cost advantage could prove moot, if in the absence of Japan's export restraints, competitive pressures drive U.S. auto makers to import their small care lines.

## LOCAL CONTENT REQUIREMENTS WOULD RETARD U.S. ROLE IN WORLD MARKETS

Whether or not the U.S. forfeits small car production, the limited domestic auto making recovery and the Japanese challenge jeopardize our industry's future health. The proponents of S. 707 contend that the legislation is the needed prescription for our industry.

We do not want the cure, it would only worsen the malady. APA believes that in the process of attaining the bill's purported objectives of curbing foriegn sourcing by U.S. auto makers and encouraging foreign auto making investment in the U.S., the recovery prospects for U.S. auto makers and suppliers would be shattered.

We are concerned that the bill's more stringent content test for U.S. auto makers—imposed from the outset—would damage their competitive posture in both domestic and foreign markets. S. 707 disregards the emerging world car developments of the last decade that wrought a previously unforeseen and still largely ignored network of partnerships among car companies around the globe. These joint ventures and alliances (e.g., GM-Isuzu-Suzuki, Chrysler-Peugot-Mitsubishi), were born of enormously hgih capital costs for the need to secure for participants both new vehicle types and components, and new markets.

One of the effects of this new era is an increase in vehicle and parts sourcing outside the U.S., particularly in areas with attractive low labor rates. In many of these countries (e.g. Mexico, Brazil) stringent local content demands guarantee that a preponderance of the products made will end up as exports. As a result, it is highly likely that in the years ahead the U.S. will experience an even greater influx of foreign sourced vehicles and components, and once traditionally American emblems will adorn vehicles made elsewhere in the world.

Every industry analysis we have supports the Secretary of Transportation, who in his 1980 report on the U.S. automobile industry projected that U.S. auto makers will "increase overseas parts sourcing from the present less than five percent to 10 percent by 1985 and 15 percent by 1990." The Delphi forecast of Arthur Andersen et al. sees the percentage of foreign-sourced parts going to 25 percent as early as 1987. Attempts to modify the decision-making behavior of U.S. firms by legislative fiat would jeopardize their strategy of reaching greater economies of scale necessary to contain production costs.

U.S. manufacturers must have complete flexibility in deciding how they will build competitively priced cars needed to command their rightful share of U.S. and foreign markets. The alternative is to be trapped in an ever-downward spiral of lower production and sharply curtailed demand for American made original equipment and replacement parts.

Foreign firms benefiting from relaxed content requirements over the three year phase-in could capture even more ground in the battle for American market share. While hamstringing the component purchasing practices of American manufacturers, foreign firms could source freely, and they most assuredly would widen their production cost advantage. When we consider as well the floodgates that will open when the Voluntary Restraint Agreement ends, we believe those three years will prove especially damaging to American auto making and parts manufacturing.

Parenthetically, APAA disagrees with the assessment made in 1983 before the House Energy and Commerce Committee by United Auto Workers officials that the bill would not affect American aftermarket manufacturing. APAA's objections to domestic content are made from our perspective as a representative of *both* original equipment and aftermarket suppliers.

It is ironic enough that the UAW misjudged the ramifications for hundreds of thousands of union and non-union workers in the suppliers sector, but even more so that they fail to see the danger to the core of their constituency, auto making workers. Workers in both sectors would lose as U.S. car makers were forced into a less competitive posture. And, Japanese investment in U.S. auto making facilities certainly promises to be no panacea for organized labor. In fact, those Japanese companies now producing the U.S. have shown an aversion to collective bargaining. The same holds true for the United Kingdom, where Japanese owned assembly facilities remained unorganized after eight years of operation, despite the powerful union movement there.

Attainment of the legislation's second objective, the encouragement of foreign investment in U.S. auto making facilities, would also prove inimical to our interests. While American firms have selected a decentralized world car strategy, sourcing certain components from around the world, Japan has charted a centralized course that calls for building its world car at home. The Secretary of Transportation's 1980 report on the industry described Japan's strategy as:

> * * * taking advantage of their domestic labor force, achieving low cost production through closely coordinated, tightly intergrated and centralized production facilities, and they shipping the product around the world. Although assembled in other countries, even Japanese knock-down kits are dominated by Japanese made parts.

Once fully phased in, a number of analysts agree that many foreign firms could meet the content requirements without increasing their purchases of American parts and accessories. MIT auto analyst Martin Anderson has calculated that a number of foreign firms with relatively low sales in the U.S. "could collectively expand their imports by 1 million units with no added American content." Thus, a number of Japanese car makers, now stymied by the export restraint, could gain in our market while adhering to their world car strategy.

Making the situation even more grim for our industry are the potential responses S. 707 might evoke from the behemoths of Japanese auto making, Toyota and Nissan. Should these and other larger firms choose to extend their presence into the U.S., we foresee little appreciable increase in their purchases of American made parts and assessories. This presence would not begin and end at the assembly line. Rather, foreign owned assembly lines would be fed by Japanese parts plants and the well established network of native suppliers. From this standpoint, we believe that the strict local content provisions of S. 707 are undersirable. Under more balanced conditions, we would have little to fear from increased foreign competition within our borders. However, our current precarious industrial position puts us at a competitive disadvantage and renders a vital U.S. industry vulnerable to foreign domination.

In its report, "The Automobile Industry in the 1980's," issued in May, 1981, the Long Term Credit Bank of Japan boasted that during the 1980's Japan will become the world's leading supplier of auto components. The report claims that "the export ratios of most of the independent auto component companies will rise, and some of them are setting up production abroad. Even component companies which are subsidiaries of auto companies, especially those producing standardized components are developing their exports. Some of these companies have announced plans to go abroad with their parent companies."

Former Assistant Secretary of State for Economic Affairs, Robert Hormats, testified in 1981 that the Honda auto factory in Ohio and the Nissan truck plant in Tennessee were "expected to procure initially about 40% of their inputs, by value, from U.S. suppliers, with the possibility of future increases in such procurement." We have cause to fear that even these modest levels of U.S. content will not be attained. Already Honda has announced plans for certain Japanese suppliers to open plants near the Ohio factory. By way of explanation, Honda complains that it can not find adquate price competitive U.S. supply sources and is forced to revert to home suppliers.

In the case of one U.S. firm which sought Honda business, Commerce officials revealed that the 40 percent price differential between the Japanese and U.S. competitors was simply a function of the quantities requested from the U.S. firm. The lot size discussed with the American company was so much smaller than orders placed with Japanese sources that legitimate price comparisons are impossible.

And in early 1982, it was announced that the Japanese tire company, Bridgestone, had acquired a large Firestone truck tire plant in Nashville. The $52 million purchase sets the stage for the Japanese tire company to become the original equipment supplier of tires for 120,000 light trucks that Nissan Motors plans to build annually at its plant in that state. The Firestone plant, under-capacity because of a depressed market for U.S.-built light trucks, was an easy mark.

Should large firms decide that it is not cost-effective to undertake production in the U.S., the legislation would be tantamount to an import quota. Local content laws violate the General Agreement on Tariffs and Trade (GATT), and we believe that those victimized by such a law would be on solid ground in bringing a case of injury before the GATT Council. The recent GATT panel ruling that the domestic sourcing requirements of Canada's foreign Investment Review Agency (FIRA), challenged by the USTR, were inconsistent with the agreement supports the likelihood of a successful challenge being raised against a U.S. domestic content law.

A finding against the U.S. would result either in our having to negotiate a massive settlement for the loss of trade or the victims would be freed from the treaty to retaliate. Since exporting is a dire necessity to sustaining the future health of our industry, we are especially vulnerable. Retaliatory steps could take a tremendous toll as well on other industries vital to our nation's economy. Because protectionism only breeds more protectionism, we subscribe to analyses that show a local content law resulting in a net loss of 70,000 American jobs by 1990.

Rather than violationg the law, our government ought to actively police other nations whose content laws rob Americans of jobs. Mexico, for example, boasts that its content requirements will boost Mexican parts exports from $640 million in 1979 to over $5 billion by 1985. Some 60 percent of these exports will head for the U.S. market, translating into the equivalent of 86,000 to 115,000 jobs in the United States auto and auto parts industry, according to a 1981 report by the U.S Labor-Industry Coalition for International Trade. Interestingly, the Coalition, comprised of nine labor unions and seven corporations, strongly condemned performance requirements in all forms and urged the U.S. government with all due speed to resolve such inequities through GATT or other dispute settlement mechanisms available.

## CONCLUSION

In conclusion, we would first like to commend the Committee for its interest in the myriad of problems we have presented. Many factors have thrust our industry into a period of dramatic transition, namely: the domestic auto depression, moves by domestic auto producers toward world car production, greater foreign sourcing necessary to contain costs and a shrinking domestic market.

The critical challenge, borne of this transition, is that American parts and accessories manufacturers must export more if they are to meet their bottom lines.

We have shown that S. 707 would thwart our export objectives, while simultaneously undermining our position in the domestic original equipment and replacement parts markets. The bill's harmful effects on our industry's sales and workers would be staggering.

American consumers also would lose if S. 707 forced U.S. auto makers, and in turn, parts producers into a downward spiral of producing fewer cars and parts at higher unit costs. And, should the legislation effect a quota, consumers would face limited choices and sticker shock.

Mr. Chairman, we have argued for the free flow of automotive products, be it the untethered foreign sourcing by U.S. auto makers, or Japanese access to the American marketplace. But, free trade can not be a one way street, as we have demonstrated Japan would have it.

We have shown that S. 707 is not the solution to the restrictive Japanese practices threatening our industry's survival, and we seek its swift defeat.

APAA believes that we must put local content legislation behind us and get on to the important business of saving the vital American automotive supplier industry. To this end, we believe new policies must be in place before the Japanese Voluntary Restraint agreement ends. It would be tragic if the Congress and the Administration were to subscribe to the simplistic sentiment that higher domestic atuo production means nothing more need be done.

Before pent-up Japanese auto makers unleash their cars—sourced by their capital-rich Japanese suppliers—on the American market, we must develop a lever—some means—to pry open Japanese markets to American-made original equipment and replacement parts.

The livelihoods of at least 400,000 American supplier workers and the equity interests of millions of American entrepreneurs and shareholders are at stake. APAA stands ready, Mr. Chairman, to work with you, the Members of this Committee, and others in Congress in the urgent business of developing viable, responsible solutions to our industry's problems.

We appreciate this opportunity to present our views and would be happy to answer any questions you may have.

The CHAIRMAN. Mr. Jennings.

Mr. JENNINGS. Mr. Chairman, I will be brief. My name is Jim Jennings. I am president of the National Automobile Dealers Association. I am also a Chevrolet dealer from Glenview, IL.

And on behalf of the association's approximately 18,400 franchise new car and truck dealers, I would like to express our appreciation for being here today. Of the 24,000 auto and truck dealers in the

United States, we have approximately 13,000 that are domestic only. We have 3,950 that are import-exclusive, and 7,000 that sell both domestic and imports.

We represent dealers in each of these categories. At the outset, let me indicate that NADA strongly opposes any proposal that would force automobile dealers and truck manufacturers to build in this country with domestically produced components. These decisions, as well as decisions regarding foreign investments in this country, should be based upon economic realities.

S. 707 would hamper the ability of the domestic auto and truck manufacturer to produce a product which would be competitive in the world markets. NADA agrees with the House Ways and Means Committee report, H.R. 1234, which states, "The real issue is the efficiency and international competitiveness of the domestic auto industry and this bill would not improve either."

Proponents argue that this legislation is needed to encourage more investment by foreign auto makers in this country, thereby stimulating employment. Investment by foreign automobile manufacturers has already begun in this country. The Honda Marysville Plant, for example, employs approximately 2,000 workers at this time. Honda plans on spending another $240 million in an effort to double their capacity by 1988.

Nissan recently announced they are going to produce cars, as well as trucks in their Smyrna, TN plant. The Smyrna facility is the largest investment that Nissan has made outside of Japan. Even with this enormous investment, Nissan would likely not comply with the content requirements of this bill.

The total voluntary investment by Japanese automobile companies in the United States now exceeds $1 billion. If S. 707 were enacted, there is a grave doubt whether Honda and Nissan would go forward with their expansion, and whether other Japanese manufacturers would invest and build in this country.

As far as the small business automobile dealer is concerned, we feel local content legislation would adversely impact both domestic and import dealers. And their approximately 700,000 employees. The most obvious result of S. 707 is that it would result in higher new-car prices, both domestic and import.

The Department of Commerce estimates a 4.5 percent increase in the price of a new car. The Congressional Budget Office estimates a 6-percent increase. Wharton estimates a 10-percent increase. A 10-percent increase would, with the current price of cars being about 10,700, mean a $1,000 increase. If the customers of our country and this industry were to finance that $1,000 it would add an additional $350 to the price of a new car. We feel that to deny the automobile manufacturers the flexibility they need to produce the car at the lowest possible price simply does not make sense.

By limiting foreign competition and the ability of domestic manufacturers to search for the lowest-price component, there is little doubt that the American consumer will have to pay higher prices in the future.

If this bill is enacted, increased prices will ultimately serve to drive more customers away from new-car purchases, thereby harming the industry. And God only knows that we have gone through some horrible years due to increased prices. We have lost 4,000 dealers in the past 4 years and approximately 163,000 employees, and we have no program to bring them back. We are just hoping that we can survive in the future.

The attrition rate among dealers would have been greater if many dealers had not been dualed with an import. You will notice in my opening statement the number. In our judgment, the passage of the Domestic Content would put even more people out of business should foreign investors decide not to invest in this country; or should the investors who have already invested here reassess their decision and decide to take another approach.

Import dealers and domestic dealers who already have an import franchise would be severely injured. This is totally unfair.

As mentioned earlier, the auto industry and the Nation have just rebounded from a severe recession. The production of the domestic automobile manufacturers has increased substantially. The dealer attrition rate has subsided. Thousands of auto workers have been recalled. Now is not the time and place to put uncertainty in the marketplace. This would be disastrous for our dealers in this country. It would weaken competition, artificially raise new-car prices, limit model availability, and possibly begin a trade war which would further cripple the world economy.

NADA opposes S. 707 and urges the committee to reject this poorly conceived measure. Mr. Chairman, NADA certainly appreciates the time to testify before you today. Thank you.

The CHAIRMAN. You have been very patient and tolerant. I know you were here early this morning.

Mr. JENNINGS. It has been an education sitting there.

The CHAIRMAN. You are welcome to come to Iowa and Portland next week.

Mr. JENNINGS. Thank you, sir. We will.

[The statement follows:]

## STATEMENT OF JAMES P. JENNINGS, PRESIDENT, THE NATIONAL AUTOMOBILE DEALERS ASSOCIATION

Mr. Chairman and Members of the Committee: My name is James P. Jennings and I am President of the National Automobile Dealers Association. I am also a Chevrolet dealer from Glenview, Illinois. With me today in Frank E. McCarthy, who is the Executive Vice President of NADA. On behalf of the Association's approximately 18,400 franchised new car and truck dealer members, I would like to express our appreciation for the opportunity to testify before you today on S. 707, the "Fair Practices in Automotive Products Act."

Of the 24,000 auto and truck dealers in the United States, approximately 13,100 are domestic exclusive dealers, approximately 3,950 are import exclusive dealers, and approximately 7,000 sell both domestic and import vehicles. These dealers, in the aggregate, employ approximately 700,000 persons.

At the outset, let me indicate that NADA strongly opposes any proposal which would force automobile and truck manufacturers to build in this country with domestically produced components. These decisions, as well as decisions regarding foreign investment in this country should be based on economic realities and not legislative fiat. S. 707 would hamper the ability of domestic auto and truck manufacturers to produce a product that would be competitive in the world markets. NADA agrees with the House Ways and Means Committee Report on H.R. 1234, which states, "The real issue * * * is the efficiency and international competitiveness of the domestic auto industry—and this bill would not improve either."

Proponents of S. 707 argue that this legislation is needed to encourage foreign auto makers to build in this country, thereby stimulating employment. Investment by foreign automobile manufacturers has already begun in this country and we believe additional investment and production will certainly take place in the coming years.

Honda, Nissan, and Volkswagen of America are companies that made decisions to build in this country because they believed that it was in their economic interest to do so. As these plants reach full production they will create thousands of jobs in the United States. Already, Honda's Marysville, Ohio plant employs approximately 2,000 workers. It is our understanding that Honda is planning on spending another $240 million dollars in an effort to double their capacity by 1988 which will bring their total investment to $490 million dollars and total employment to around 2,500 workers. Even with this increased investment, Honda could not comply with the content requirements incorporated in S. 707.

Nissan's $660 million dollar manufacturing plant in Smyrna, Tennessee, which is designed to produce light-duty trucks, is the largest single investment by a Japanese company in the United States. Furthermore, it is the largest investment made by Nissan outside of Japan. The total voluntary investment by Japanese automobile companies in the United States now exceeds $1 billion dollars. If these companies remain profitable there is every reason to believe that this investment trend by foreign corporations will continue.

There are a number of serious and troublesome problems with local content legislation from an international perspective. Experts in this area have testified that a proposal such as S. 707 would constitute a clear and admitted violation of existing treaty agreements and would almost certainly result in retaliation by foreign governments. I would prefer to concentrate on problems that would more directly and immediately impact on the small business automobile dealers of this nations. As far as the small business automobile dealer is concerned, we feel that local content legislation would adversely impact both domestic and import dealers, their approximately 700,000 employees, and our customers.

The most obvious result of S. 707 is the significant impact it will have on new car prices—both domestic and import. The Department of Commerce estimates a 4.5 percent increase in the price of a new car; the Congressional budget Office a 6 percent increase; and Wharton Econometrics a 10 percent increase which would cost consumers 18 billion dollars annually.

A 10 percent increase in the price of cars to the American consumer is extremely significant. In 1983 the average selling price of a new car purchased in the United States was $10,725. An additional $1,000 per vehicle plus the $317.50 it would cost the purchaser to finance this price increase (computed at 13.5% for 48 months) is an extra cost consumers should not be forced to absorb.

To deny American automobile manufacturers the flexibility they need to produce a car at the lowest possible price simply makes no sense. By limiting foreign competition and the ability of the domestic manufacturers to search for the lowest price components, there is little doubt that the American consumer will have to pay higher new car prices. Increased prices will ultimately serve to drive more consumers away from new car purchases and retard the industry's revitalization program. In addition, substantial price increases for domestic vehicles will place the domestic manufacturers at a competitive cost disadvantage worldwide.

As the retail merchants whose livings are made selling new cars and trucks, dealers are cognizant of one indisputable fact. High interest rates and high car prices combine to price many potential new car buyers out of the marketplace. Dealers can ill-afford to go through another downturn in sales like that which began in 1979 and just recently ended.

During the recent recession, over 4,000 new car dealers were forced to close their doors and over 163,000 dealer employees lost their jobs. This number would have been greater if thousnds of domestic dealers had not been dualed with an import. It is our best judgment that passage of the domestic content bill will put even more dealers out of business. Should foreign manufacturers decide not to invest in this country, or should those companies who have already invested here reassess their decision and decide to take another approach, import dealers and domestic dealers who also have an import franchise will be severely injured. This is totally unfair.

The federal government, by passing a domestic content bill, would be sacrificing the jobs of dealers and their employees, plus thousands of jobs which rely on a sound import/export trade, for minimal job gains in the auto manufacturing sector. According to the Congressional Budget Office, there would be a net job loss of 66,000 jobs if the domestic content bill were enacted. The Department of Commerce and Wharton Econometrics project an even greater net job loss. Given the net loss in jobs that will accrue from such a strategy, is this a sound national policy? We think not.

As mentioned earlier, the auto industry and the nationa have just rebounded from a severe recession. The production of the domestic automboile manufacturers has increased substantially, the dealer attrition rate has subsided, and thousands of auto workers have been recalled. Now is not the time to place uncertainty in the marketplace, weaken competition, artifically raise new car prices, limit model availability, and possibly begin a trade war that would further cripple the world economy.

The solution to increased employment and a healthy domestic automobile industry is not the adoption of a domestic content bill whose benefits are dubious at best. Rather it is to get the federal government on a solid financial footing so that interest rates are reduced and sustained economic growth can ensue. Additionally, NADA would continue to urge the United States trade delegation to vigorously pursue corrections in the policies of other nations that inhibit free international trade.

NADA opposes S. 707 and would urge the Committee to reject this poorly conceived measure.

Mr. Chairman, NADA appreciates the opportunity to testify before your Committee and would be happy to answer any questions you might have.

The CHAIRMAN. Mr. Andersen, representing The Grange.

Mr. ANDERSEN. Thank you, Senator Packwood.

I sent a statement to all of your committee members, and ask it become a part of the record.

The CHAIRMAN. It will be made a part of the record.

Mr. ANDERSEN. I think today I can say that every farm producer organization that I know of is opposed to S. 707. Certainly, the main reason we are is because of the retaliatory action we believe would be put into place if this became law.

First of all, one-third of our total agricultual production is sold in foreign markets at this time. When we look at Japan, that is our largest single-country buyer, and they buy approximately $7 billion a year of farm commodities. They also represent, of course, about one-fifth of our total agriculture exports in a year.

We export approximately $35 billion a year now. I think in 1980, it was $42 billion. So it is very important that we do what we can to maintain and increase our agriculture exports.

Many of the speakers today have indicated they are doubtful that there would be retaliation. I think when we talk about retaliation, we have to look at different things. I will give you some instances.

In 1973, we put an embargo in place on soybean sales to Japan, because the price was going up, because there was a shortage of soybeans. As a result of that embargo, Japan spent hundreds of millions of dollars putting together production of soybeans in the country of Brazil. Today, Brazil is our main competitor in the world markets for soybeans. That is a form of retaliation.

Just this last year, China retaliated against our restriction of their textile exports to the U.S. by deciding that they would not continue to buy wheat. They discontinued buying wheat from us for several months last year, even though they have a written contract, a written agreement with our country to buy so many tons of wheat per year for the length of that agreement.

They discontinued buying for several months, and as of now, it does not look as if they will catch up on the amounts they agreed to buy from us.

As to the European community, there is no question but what they will look at this, if we put Domestic Content legislation into place. This is exactly what the European community would like to see, because they are wanting to lower the amounts of corn gluten meal and soybeans we do send into the European community, and this would be a violation of the GATT provisions.

We are a signatory to the GATT agreement with about 90 other countries, and one of the provisions in the GATT agreement is that it does prohibit quantitative restrictions, and the domestic content restraints would come under that category. The European community would undoubtedly use this excuse to evade their GATT obligations which call for no restrictions on corn gluten meal and soybeans. So this is very important to us in Europe, in Japan and in other areas of the world, that we do not have Domestic Content legislation.

The GATT is recognized as not being as good as we would all like, but it is the best we have, and we have to learn to work with it. We are a signatory to it. We have an understanding with other countries. We have an agreement with other countries, and it is the plan we do use to encourage expansion of U.S. exports and international trade.

I would guess that most of us would expect to see the GATT reopened for negotiations. Perhaps in 1985 or 1986, we ought to expect that to happen.

Many people talk in terms of this domestic legislation as being a jobs bill. We have had a number of people already indicate it would be a negative jobs bill. It would be a jobs-loss bill.

When we look at what has happened to the auto industry, we all recognize that this is a very serious problem. This country cannot afford to lose its industrial base. That industrial base is very important to the vital interests of this country, just as the agricultural industry is. But we believe that S. 707 is not the appropriate action by government to deal with these serious auto industry problems. We believe that perhaps a more effective jobs retraining bill would be helpful—and perhaps the most important thing that could be done on the Federal level today would be to step up our efforts to achieve a more realistic international exchange rate.

Certainly, we recognize that today the greatest impediment we have to exports from this country is the tremendous increase in the value of the dollar over the last two years. When you compare the value of the dollar with the yen, the mark, the franc, and so on, it is easy to understand why our exports are going down. Domestic Content legislation would do nothing to deal with that problem which is so damaging to our export opportunities.

We do recognize that we have serious problems in the auto industry, but we certainly do not agree that S. 707 will solve those problems—and it will greatly damage farmers and other sectors of our economy.

Mr. **Andersen**. Thank you, Senator.

[The statement follows:]

## STATEMENT OF EDWARD ANDERSEN, MASTER, THE NATIONAL GRANGE

Mr. Chairman and Members of the Committee: I am Edward Andersen, Master of the National Grange, which represents more than 400,000 members in farm and rural areas in 41 states. Since its beginnings in 1867, the National Grange has been deeply concerned with our national interests as well as with the special and vital interests of the agricultural economy and rural America.

The National Grange, in concert with many other agricultural groups and with the broad range of consumer, worker and business interests opposing S. 707, has repeatedly pointed out how damaging this bill could be to American farmers, exporters and broad national interests threatened by such special-interest "protectionist" legislation.

On the trade front, S. 707, which would violate our international commitments and our obligations under the General Agreement on Tariffs and Trade, would invite prompt retaliatory action from the European Community and Japan. It would almost certainly speed up a long-standing European desire to justify restriction of our corn, soybean and other exports to the E.C. U.S. farmers and the agricultural community, among the hardest hit of all sectors during our economic downturn, can ill-afford further decline in our vital $35 billion export market.

Even with a decline in these exports, in 1982 Japan purchased $5.7 billion of U.S. agricultural products (including soybeans, $1.1 billion; corn, $1.3 billion; wheat, $.6 billion). Furthermore, in 1982 European Economic Community imports of U.S. agricultural products were nearly $9 billion (including soybeans, $3.9 billion; corn, $1.3 billion; wheat, $.3 billion). These exports, along with other U.S. farm producers, are extremely vulnerable to retaliatory action by our trading partners if legislation such as S. 707 were to be enacted into law.

Agricultural opposition to S. 707 and its counterpart, H.R. 1234, has been consistently expressed by many farm organizations and commodity groups. The attached letter of December 13, 1983, sent to all members of the Senate, briefly summarized the reasons for such opposition. Our opposition is centered on the short-term dangers it represents for our export markets. However, S. 707 represents long-term threats to the viability of the world trading system which could be even more damaging. A spiral of retaliatory and counter-retaliatory steps could trigger massive trade conflicts which might result in world depression such as that which followed the ill-advised Smoot-Hawley tariffs of 1930.

Farmers and other producers and workers are also consumers, and we again emphasize the obvious increase in automobile costs which would result if S. 707 should become law. The so-called "voluntary" restraints of Japanese car shipments to the U.S. have already greatly increased the price of both U.S. and Japanese cars to U.S. buyers because of the emphasis being placed on bigger cars by both auto industries, while greatly reducing the customer's right to choose a more economically priced car. A "domestic content" law could be expected to add at least another $1,000 to the price of a car, for a national cost of something on the order of $10 billion or more. As that former great of the U.S. Senate, Everett Dirksen, so aptly put it, "A few billion dollars here, a few billion there—after awhile it adds up to real money!"

As a spokesman for many farmers who face loss of farm and livelihood, we are in full sympathy with the urgent need to find effective solutions to the unemployment problems of displaced automobile workers which have instigated the proposals of S. 707. Authors of the bill, however, have not considered the damages from retaliation and other consequences which would cause the loss of far more U.S. jobs than would be gained. Many unemployed automotive workers are permanently displaced by changes in technology, and more appropriate long-term solutions must be found for them—in ways which do not penalize other workers.

S. 707 fails to meet the requirements of constructive legislation on every count:

1. It is a "jobs loss," not a jobs bill; furthermore, it would be detrimental to the long-term interests of the very automotive industry workers whom it aims to help, by reducing incentives for the U.S. industry to become more competitive.
2. It would bring much higher costs to U.S. car buyers, who have already paid a heavy price for the "voluntary" restraints on Japanese car shipments into the U.S.
3. It would invite retaliatory action by two of our best customers for farm exports, the European Community and Japan, which could be a devastating blow to our still-depressed agricultural economy.
4. It could trigger a wave of worldwide protectionist actions, disrupting world trade, bringing on renewed economic crises which in turn would intensify the world political tensions which threaten our very survival.

We urge members of this Committee not to recommend such an unwise proposal. It is particularly ill-conceived because it does not deal with the central problems underlying unemployment in the U.S. automobile industry. And the damage to U.S. farmers, other workers, consumers and to the world economy would be immense.

We appreciate the opportunity to present the reasons for our opposition to S. 707 to this Committee. We trust that, in the interest of our farmers and our nation, this misguided proposal will be rejected.

The **Chairman**. Gentlemen, thank you very much. I have no questions of you. We will have another meeting a week from tomorrow here, another session which I expect to be as long as this, and then two on the road. And by the time we are done, if we don't have a complete record, I don't know how we could get one.

We are adjourned.

[Whereupon, at 2:10 p.m. the hearing was adjourned.]

# FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT

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THURSDAY, MAY 24, 1984

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
*Washington, DC.*

The committee met, pursuant to notice, at 9 a.m., in room SR-253, Russell Senate Office Building, Hon. John C. Danforth presiding.

## OPENING STATEMENT BY SENATOR DANFORTH

Senator DANFORTH. Senator Packwood is not able to be here, at least for the first part of the hearing, so he has asked me to open the hearing. I would like to begin with a brief statement.

At last week's hearing on the domestic content bill, we heard a lot of excuses for supporting domestic content. We heard that everybody does it. We heard the send-a-signal argument, the no-one-will-retaliate argument, and most perverse of all, we heard the claim that this is a jobs bill.

It seems to me that not enough was said about the dire consequences to the United States as a whole of passing the domestic content bill. The bill is anticonsumer, antijobs, and antifarmers. We are being asked to tax all American car buyers as much as $1,000 per car over the price increases they have faced since 1981.

We are being asked to sacrifice 173,000 American jobs not related to autos so that 38,000 autoworkers and 69,000 workers in related industries gain jobs. That comes out to a net job loss for the Nation as a whole of 66,000; and that is before you take into account the effects of foreign imitation and trade retaliation.

You do not have to go back many years to find that the threat of retaliation is very real indeed. Last year the United States imposed quotas on imports of Chinese textiles. The Chinese retaliated against American agriculture. Last year the United States imposed tariffs and quotas on imports of specialty steel. Earlier this year the Europeans retaliated against American chemicals and sporting goods. As for the Japanese, when the United States slapped on the 1973 soybean embargo, they turned around and built a soybean industry in Brazil that competes with us to this day.

Almost 5 million jobs depend on exports. We are being asked to jeopardize those jobs for some 107,000 auto-related jobs.

The domestic content bill has been called the son of Smoot-Hawley by "Car and Driver" magazine. Bill Brock has called it the worst threat to our prosperity and international trading system in a decade. It has been called blatantly protectionist and an economic shell game. And the Secretary of Commerce and the head of the American Farm Bureau both agree that it would be devastating to American farmers and American farm exports.

I am concerned that so far in these hearings we have not given farm organizations sufficient opportunity to be heard. It is no accident that the domestic content bill is opposed by the American Farm Bureau, the American Soybean Association, the Grain-Sorghum Producers Association, the International Apple Institute, the Milk Industry Foundation, Millers National Federation, the National Association of Wheat Growers, the National Broiler Council, the National Corn Growers Association, the National Council of Farmer Co-Ops, the National Farmers Union, the National Grain Trade Council, the National Grange, the National Soybean Processors Association, the National Turkey Federation, the Rice Millers Association, and the U.S. Cane Sugar Refiners Association.

These farm groups believe that domestic content threatens them, and they are right. One out of every three acres planted in this country produces food for export. More than half of our wheat, soybeans, and rice; and more than a third of our feed grains, cotton, and tobacco goes to foreign markets.

Farmers have good reason to oppose this bill. It is the most blatantly antifarmer bill introduced since I have been in the Senate. If Congress decides that we should punish the farmers, surely this is not the time. I can think of no better example than this bill of kicking a guy when he is down.

Many have described our farm economy as being in a state of depression. Farm bankruptcies and foreclosures are at a record high, and could affect as many as 100,000 farm families this year. In some areas, land values have fallen as much as 30 percent. This year farm exports may finally inch up above the record declines of 1982 and 1983, and we are talking about passing a bill that will raise farmer costs, and prompt retaliation against their exports.

All of us want the autoworker to prosper, but we should not be forced into a position of choosing between the American autoworker and the American farmer. That is exactly what supporters of domestic content ask us to do.

I have many autoworkers in my State, but I also have many farmers. I will not ask the Missouri farmers to suffer even more than they are, even for as good a cause as the autoworkers.

I have championed the cause of the U.S. auto industry for years. I will continue to do so, but not at the expense of every other living American.

I am delighted that the first witness today is Congressman Sam Gibbons, chairman of the International Trade Subcommittee of the House Ways and Means Committee, and certainly one of the leading authorities on international trade in the House of Representatives.

Congressman, it is good of you to be here.

## STATEMENT OF HON. SAM GIBBONS, U.S. REPRESENTATIVE FROM FLORIDA

Mr. Gibbons. Senator Danforth, I appreciate the opportunity to come here and testify. I am sorry that the chairman has a slight medical problem with a sore leg this morning, and I am sure he will speedily recover.

I asked to be allowed to testify at your hearing this morning because I want to come here and say some things that I think have not been said before.

We have all examined the statistics. We have looked at the pay scales. We have made all the arguments back and forth. And frankly, none of the arguments of the proponents will hold water.

But as I listened to your statement this morning, I want to commend you. It was an excellent statement, and it is hard to add anything to it. I have a statement here that I will not read, and I will ask your permission to enter it into the record. I would like to elaborate a little on the statement, because I wanted to say in person some of the things that might be said in print that people would miss.

I want to start off by saying this is an arrogant piece of legislation. I have been making laws now for 32, almost 33 years, and never in all the history of legislation—and I am sometimes accused of being a little arrogant myself—have I ever seen such an arrogant piece of legislation as this.

Just think about it. With pure political muscle and influence and campaign contributions, all that is happening here is that a small segment, a very small segment of America, is saying all right, all the rest of you Americans, go out there and sweat and work and earn your pay and pay your taxes, but you have got to buy our products, no matter how expensive they are, no matter how sloppily built they are, and no matter how much I am paid, and I am usually paid substantially more than you are, you other Americans.

That is arrogance. That is un-American. That is unfair. And I want to say it very clearly and very directly. This is an aggression by a few people against the great majority of us, to cover poor engineering, poor management, poor workmanship, and just a sheer inability to compete in a society that is based on competition, fair competition.

I want those words to sink in, because I mean them. I have said them before, and I will say them again, to anyone who purports to think that this is a fair piece of legislation.

It says, after you have paid your taxes, after you have done the hard work, you have got to buy my product. Just think about it. That is what it does. And I am going to continue to be paid, despite the fact that I am not earning that pay, at substantially more than all of my fellow workers in America, whether I am in management or in labor. And there have been recent disclosures about the salaries of some of the people in some of the auto companies.

Mr. Chairman, you are going to have the auto companies testify here today. I hope the leaders of those companies will come. When we had hearings in the House, I requested that they come. They wanted to send the association, and I said no, I want to hear from the leaders of the companies. And the leaders were nice enough to come by my office and sit down and talk with me—we had a little heart-to-heart discussion. I said, you are paying yourself too much; you are paying your workers too much; and Americans cannot afford you. And there was a long period of silence. And I still say that.

Now, they are nice people. They are the kind of fellows you like to have a drink with. I like to shake their hands. But they are not worth what they are paying themselves, and their workers are not worth what they are paying them, either, when you look at all the rest of the American work force.

Now, we have seen the stories about these salaries and these bonuses, and you would think they earned them. Well, if they earned them, they earned them a few years ago when they conned this administration into getting Japan to put on the restraints. That is when they earned them. They have not earned them since then. And I resent the way they act as if they earned these salaries, when it was fiat by the Japanese Government to put on a voluntary export restraint, because the government was afraid of what the U.S. Congress and some other people in this Government would do to them.

Every penny that has been earned by those companies since that time should have been reinvested directly into improving their plant and facilities, and their engineering, and their management. But what have they done? They have paid it out in dividends; they have paid it out in bonuses; and the workers have not received any increase.

So, these are a few people in America trying to take advantage of all the rest of us. That is all it is.

Now, you can disguise this thing in any kind of argument you want to, and in some of the phony statistics that they use. And they are phony, because they always compare imports with what their sales are. What they are really not telling you is that their sales have dropped off, and continue to drop off, because American people do not want the shoddy material they are turning out, and they do not want the high-priced material they are turning out. And that is why their sales drop off. You cannot afford a car.

Americans ought to be able to take the money that they have earned and spend it as they want to as long as it is not injurious to their own health, or to the health of other people. That is a basic American principle.

Mr. Chairman, I have a lot more in this statement of mine, but I thought I ought to lay it on the table here today. If I have offended anybody, I intended to. And I will be glad to respond to anybody's questions, including the audience.

Senator DANFORTH. Sam, I have never known you to offend anyone.

Mr. GIBBONS. Then you have not known me very well.

No, I do not try to, but this is something, Mr. Chairman, I feel very strongly about, as you may have understood from what I have said.

Senator DANFORTH. I think I got that. Let me ask you this, if I might.

We heard testimony last week from the Congressional Budget Office. Mr. Penner came in, and he said that this bill would mean that 173,000 Americans would lose their jobs, and that the net job loss would be 66,000. He was questioned about that, and he testified quite clearly that he was not considering retaliation. He was not factoring in any retaliation. He was simply saying that even without any retaliation by other countries, even without imitation by other countries, there would be a net job loss of 66,000 and a gross job loss of 173,000, just by the normal dislocations of the marketplace, brought about by a bill such as this.

Now, it was argued, well, there will not be any retaliation. So, what I would like to ask you is this: If the 66,000 net job loss assumes no retaliation and no imitation, is that all we would have, or is it fair to say that we would see retaliation, and we would see imitation by other countries? In other words, for those who have argued that there is a free lunch in international trade, that we can do whatever we please, that the Japanese are too dependent on us to respond, and that nobody else is doing this anyhow, is that a fair argument on their part, or does that amount to wishful thinking?

Mr. GIBBONS. Well, you know, that is the same argument that has wracked these halls for 200 years; that we live on an island all by ourselves, and we can do almost anything we want to, and no one, because we are so smart and so intelligent and so strong and so brave and so much above all of the other people, all of the other 4 billion people on Earth, that nobody will do anything to us. And it is hogwash.

Retaliation sometimes comes in curious packages; I can name a lot of them, and we could excessively prolong this hearing this morning if I did. But the retaliation comes as sure as night follows day. And it comes slowly sometimes. Sometimes it comes very abruptly, as with the Chinese, abruptly when we started cutting back on some of their exports to the United States and they abruptly cut back on our exports to China.

It does not always work that way. One of the worst forms of retaliation is when we passed the Jackson-Vanik amendment. The Russians retaliated in a cruel way. They just cut off all Jewish emigration, not just to the United States but every place on Earth. That is just another form of retaliation. This retaliation comes—it came after Smoot-Hawley. The retaliation was so bad then that world commerce dropped by 75 percent in 1 year. So the retaliation will come.

Senator DANFORTH. We heard last week that well, the Japanese are so dependent on us they would not dare retaliate. Would it not be a simple matter for the Japanese to increase their soybean purchases from Brazil? It would be a less than totally obvious form of retaliation, but it would be very real to the American farmer, would it not?

Mr. GIBBONS. It certainly would be. It would be for all products. It is not just, though, what the Japanese would do. This bill affects far more than just the Japanese. I know it is aimed at them, and it is trying to target them, but it has to hit a lot of other people.

But, the worst thing about this bill is if we take this industry, and this group of laborers, and treat them preferentially in American society, how can we say no to all the other people in American society—the shoe people, the steel people, the textile people, some farming industries, some farmers.

All of them would come in here and say, well, you took care of the best-paid people in America other than the steelworkers. You took care of some of the highest paid management in the world.

Now, listen. We do not earn that much money. We have to have the same kind of rights that they have. So we would end up with domestic content, or something like domestic content in every industry in America, and America would be just flat broke after that. So, we would retaliate against ourselves.

But the retaliation will come. You cannot push this kind of arrogant legislation off against the world and not expect the rest of the world to act, to stand up on its own two feet and shoot back. We are only 5 percent of the Earth's population. We are somehow blessed with 30 percent of its wealth. But the rest of them do not love us; they envy us, and sometimes are very envious of us. And they will not take the kind of pushing around that this legislation advocates. They are going to retaliate with similar types of legislation, and it may not just be in the car industry; it could be in everything else.

Senator DANFORTH. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. It is a pleasure to have my colleague from the House here.

Mr. GIBBONS. Thank you, Don.

Senator RIEGLE. We served for a good long time over there.

Mr. GIBBONS. Yes. I recall that.

Senator RIEGLE. You are aware, I am sure, that imported cars from the United States and from all the other nations in the world make up less than 1 percent of the total cars sold in Japan. You are aware of that, I assume.

Mr. GIBBONS. Yes, sir. And I have talked with our own manufacturers about that, and they do not make any effort to export to Japan. When the Japanese drive on the lefthand side of the road, they send them over a car that drives on the righthand side of the road. I went to the docks—well, I should say Mr. Pease, of my committee, when we went to Japan to investigate this, went to the docks. He was told that at the place where cars are imported, it took about 15 hours to conform a German-built car to Japanese standards. It took some 80 hours to conform the best American cars to Japanese standards.

These conformations were mainly in safety features and in fit and finish features that were required. These were not Japanese figures. These were General Motors figures.

So, you know, who is going to buy one of those cars? If you buy a Cadillac——

Senator RIEGLE. Mr. Chairman, I do not want to be discourteous to the witness, but you are not answering my question, and you are using up my time without answering the question.

The question was, were you aware that all of the foreign cars of all different countries and makers are less than 1 percent of the Japanese market? And I gather you are aware of that.

Mr. GIBBONS. What has that got to do with this bill? That has not got anything to do with this bill. In America, you earn your sales. You do not get them legislated for you. That is what you are trying to do, Senator. You are trying to legislate a sale, and in America we earn our way.

Senator **Riegle**. Why do you not see what I am driving at?

Mr. **Gibbons**. Go ahead. I know what you are driving at. You introduced this bill. I am sorry you were not here when I really characterized it, because I would have really had your goat.

Senator **Riegle**. As you know, a majority of the House of Representatives voted for it. It has passed the House. You happen to be in the minority in your own body on this.

Mr. **Gibbons**. That is all right. I am correct. Go ahead.

Senator **Riegle**. You are entitled to your view, but you did not carry your view in the House of Representatives.

Mr. **Gibbons**. That has not got a cotton thing to do with whether I am right or wrong.

Senator **Riegle**. I agree with you. I would agree with you on that. The fact that you are wrong has nothing to do with the vote in the House.

Do the Japanese discriminate against citrus products from your State and other States?

Mr. **Gibbons**. Yes, sir, they do; and I am doing my best to get them to change it.

Senator **Riegle**. Well, I would say——

Mr. **Gibbons**. But I am not coming in here with any bill like this piece of arrogant legislation saying you have got to buy my oranges. If somebody is producing a better orange, then buy it.

Senator **Riegle**. That is not the problem, though. I thought your oranges were as good as the Japanese oranges.

Mr. **Gibbons**. You are saying to American taxpayers who are paid less than management, and less than labor, that no matter how high the price is, you have got to buy my product. You have got to buy my product after I have paid my taxes and everything else.

Senator, that is terrible.

Senator **Riegle**. There is no sense in you and I having a fight here. I mean if you are here for that purpose, then I think you ought to leave. But I would like to ask you a couple of questions.

Mr. **Gibbons**. Go right ahead.

Senator **Riegle**. You seem to have a hard time responding to the questions.

Mr. **Gibbons**. Well, I think I am responding.

Senator **Riegle**. Well, let me ask you this. Do you know today that our merchandise trade deficit is running at $120 billion on an annual rate basis?

Mr. **Gibbons**. Yes, sir. That is because the Congress——

Senator **Riegle**. Now, let me just ask you this question if I may. Let me just pose this question for you.

Mr. **Gibbons**. All right. Go ahead.

Senator **Riegle**. In your mind, is there an overall size of a merchandise trade deficit in a year, whether it be $120 billion, or $200 billion, or $500 billion, or $50 billion, that becomes a size of a merchandise trade deficit, that begins to worry you, in terms of our own financial strength in this country?

Mr. GIBBONS. One dollar trade deficit worries me, Senator; and it ought to worry everybody. It means we are not being competitive. We are not being competitive in a big sense. The big problem—and we have just had hours and hours of discussion by expert witnesses over in the House in this matter—is, as long as this Congress and this administration insist on running a $200-billion budget deficit and keep running it way out into God knows how long, we are going to have a screwed up monetary policy.

The screwed up monetary policy breeds high interest rates. High interest rates breed an overvalued dollar. So if you are looking at the problem of the overvalued dollar, and the trade deficit that results from the overvalued dollar, all we need to do is look in a mirror. We are the problem—you, me, and all of us.

Senator RIEGLE. How serious is the consequence of the problem when the merchandise trade deficit reaches, not the level of $1, which you are concerned about and I am concerned about, but reaches an annual level of $120 billion? And you are a trade expert. What does that mean?

Mr. GIBBONS. It finally may make us mad enough and sensible enough to get this cottonpicking budget back in balance, to get interest rates down, and get the overvalued dollar down.

Now, the management of the auto industry will tell you that, Senator; they understand that.

Senator RIEGLE. Does the net loss of $120 billion out of our economy this year, represented by that merchandise trade deficit, hurt this country?

Mr. GIBBONS. Well, I asked that question, too, and the answer is when you are running a fiscal deficit the size we are doing——

Senator RIEGLE. You are not answering the question.

Mr. GIBBONS. Now, let me answer it, Senator. I am trying to answer it. I may not be answering it as fast as you are thinking, but I am trying to get an idea across to you.

I asked that question. If we were not running this trade deficit, our interest rates in this country would be far higher; our costs would be far higher.

Senator RIEGLE. You made that point, and I agree with it.

Mr. GIBBONS. The two are interrelated. And if you will go to Mr. Volcker, if you will go to the people in the Treasury, if you will go to Mr. Bergsten, if you will go to anybody that understands international economics, they will come back and tell you that a direct result of the fiscal deficit is the trade deficit. There is no way——

Senator RIEGLE. But the question, however, which you have not answered yet, is is it damaging to our country when it reaches the size of $120 billion annually? Is that damaging to the country?

Mr. GIBBONS. Their response to me was that if you did not——

Senator RIEGLE. I am asking your opinion.

Mr. GIBBONS. I am trying to tell you. Senator, will you simply let me answer your question?

Now, I am trying to tell you what they told me. I am not an international economist, but I am trying to tell you what the experts told me.

Senator RIEGLE. Mr. Chairman, I would like to reclaim my time. I do not think we have to be rude to one another, and I do not think we have to—I have asked you a question. I have asked it three times. You do not seem to want to answer it. You do not have to answer it if you do not want to.

**Mr. Gibbons.** Senator, you have been over to my body, and I have never treated you like this, and I never would treat you like this; but I wish you would let me answer the question.

**Senator Riegle.** Well, let us try one more time.

**Mr. Gibbons.** Well, we will. And if you will just remain silent until I get through talking, I will answer the question.

The testimony before the House Committee on Ways and Means, when the same question was asked, was that with this fiscal deficit we have, somebody is going to suffer. If we did not run a trade deficit, other people in America would suffer. There would be higher interest rates and, therefore, greater unemployment in the building industry and other sectors. I do not want the trade deficit, but the trade deficit is a natural result of the mess that all of us collectively have created over quite a period of time.

On the fiscal side, the $200-billion-per-year deficit out into the future is the problem.

**Senator Riegle.** Is it damaging to us? That is the question.

**Mr. Gibbons.** It is damaging to some sectors. To other sectors it relieves damage.

**Senator Riegle.** How about the country as a whole? Do you think the $120-billion deficit that we are running is damaging to the country as a whole?

**Mr. Gibbons.** The answer to that, Senator, is it is not damaging to the country as a whole because different segments of the country are affected in different ways by the trade deficit. And if we did not have that deficit—and I am quoting Volcker; I am quoting all of the people out of the Treasury now; I am quoting Mr. Bergsten and others—other people in the economy would suffer.

I am sorry we have it, but this bill will not correct it. This bill will only exacerbate it.

**Senator Riegle.** Well, I would just conclude by saying——

**Mr. Gibbons.** You will make America less competitive.

**Senator Riegle.** When we had the Treasury witness here the other day and asked the question, he conceded quite readily that it was very damaging to the country, and there was an urgent need to find a way to change it. The question was what was the best way to change it. But your testimony is that you do not think it is damaging, and I think if that is your view, you are entitled to it.

**Mr. Gibbons.** It is damaging to some segments of the economy.

**Senator Riegle.** I asked about the country as a whole, and your response was that in terms of the country as a whole that you felt that it was not damaging, and that is clearcut. If that is your view, you are entitled to it. I happen to disagree. I think it is very damaging.

**Mr. Gibbons.** Well, Senator, you know where the problem lies. Look in the mirror. You have helped create the deficit. I have helped create the deficit. All of us have helped create the deficit. We have spent too much money, and unwisely.

**Senator Riegle.** Well, that is certainly part of the problem.

**Mr. Gibbons.** That is the problem.

**Senator Riegle.** But as I think you are aware, our own Treasury officials have been over in Japan, meeting with the Japanese this last week, on the problem of the yen not being a currency that is traded in international markets. As I am sure you know, there is a major problem here.

The prime interest rate in Japan today is 5½ percent. It is 12½ percent here, and that is due to many things, our deficit being one of them; but it is also due to the way that they have handled their currency. This is widely known, and I think you know it. But there are a number of other factors. And if you do not want to discuss those or put those on the table, that is a matter for your judgment.

I do not want to engage in a polemic here. There is no point to that. You have made your statement, and I think you have made it clear how you feel about it. And I do not have any desire to question you further about it.

Mr. Gibbons. I did not come here to defend the Japanese. I am an American, and I am proud to be an American, and I do not apologize for anything they are doing.

But let me say this, Senator. Last year, I took my Trade Subcommittee to Europe. Before I did, we prepared for it. We called in good witnesses from the administration and from the outside sector.

One of the problems that was identified was the undervalued Japanese currency. I tried to get the administration to move against that and to bring that point up. When I went to Japan, I spoke to the Prime Minister about the undervalued currency, and he flinched. I spoke to the Foreign Minister about it. I spoke to the Finance Minister. I held press conferences in Japan about their monetary system.

Finally, we got the Treasury Department here to do something about it. Now, it was a combined effort. It was not just Gibbons' effort and his Trade Subcommittee. It was an effort by everbody who understood the problem. The Japanese are responding to that.

But I did not come here to defend the Japanese or anything else. I came here because I think this piece of legislation is arrogant. What you are telling people to do, Senator, is buy my product no matter how badly it is constructed, no matter how expensively it is constructed, no matter how overpaid the management is, and no matter how overpaid the labor is. That is all you are doing, Senator, with this piece of legislation.

Senator Riegle. Let me just say to the witness——

Mr. Gibbons. That is un-American.

Senator Riegle. You are inaccurate in the way you describe it. What we say in this legislation is that the Japanese companies, the car manufacturers, if they want to sell very large volumes of cars in this country each year, very large volumes, that they would have to establish factories here, and over a period of time begin to build those cars here, according to their design, their management techniques, the salary structures that they want to establish—the whole works.

And some Japanese companies have already done that. Honda has done that. Nissan has done that. And, as a matter of fact, that is a practice now that 30 other nations in the world have adopted, and all the rest have adopted quota systems.

So, it is not a question of saying that people would have to buy American-designed cars. The domestic content bill is designed to create more competition. It is designed to bring more products into the marketplace. But it is to have those automobiles increasingly built here in this country, with our workers, and our parts, and our subassemblies, so that the money stays in this country, and so the money is available, not just in one State, but in 50 States, and not just for workers in one industry, but for all the American people. Because the money that is spent in our economy, whether it is circulating through Florida in your district, through Oregon, or through the rest of the Nation, is America's money. And once it leaves the country, if we are going to surrender to this trade war, which is what basically I hear you advocating, we are going to surrender to this, and we are going to have $120-billion-a-year deficit taking that kind of strength out of our society. Over a period of time that becomes, I think, very damaging to this Nation of ours.

Now, you do not think so. You are on the record today——

Mr. GIBBONS. Now, wait a minute, Senator. My time is running out, and it is limited here, but you are filibustering on my time. We do not filibuster in the House. Maybe I do when I am over here.

But you have mischaracterized my statement. I did not say the things that you said, and I do not believe them. I think you mischaracterized my statement, Senator, and I resent it. You are not going to put words in my mouth, Don Riegle.

Senator RIEGLE. Well, I understand that. I do not think anybody is going to put words in your mouth. I have no intention to do that.

Mr. GIBBONS. Well, I want you to know I believe that in America we earn our way. We earn it by the quality of our goods, and by the quality of our thoughts, and by the dedication we apply to the job. We do not legislate it. That is what you are trying to do. That is a piece of socialism.

Thank you, Mr. Chairman.

Senator DANFORTH. I will tell you, Sam, after the hearing we had last week, it is refreshing to see a witness who will fight back.

Thank you very much.

[The statement follows:]

## STATEMENT OF HON. SAM M. GIBBONS, U.S. REPRESENTATIVE FROM FLORIDA

Mr. Chairman, members of the committee, I welcome the opportunity to appear before you today to discuss the domestic content bill. As some of you know, I strongly believe this is bad legislation for America—it is blatantly protectionist, GATT illegal, highly inflationary, invites foreign retaliation, and most importantly, prevents one of the basic industries from becoming fully competitive in the international marketplace.

A top auto executive reporting recently on his company's unprecedented first quarter profits was quoted as saying, "The facts don't lie." In this instance, I have to agree with that executive—the facts don't lie. Let me cite just a few, which I believe should be taken into account as this Committee considers the merits of domestic content legislation for our auto industry:

New car sales are now running one-third above sales of just one year ago and are at their highest level in five years.

Capacity utilization rates in the automobile industry, now at about 85 percent, are up sharply from the lowest 1982 level of about 45 percent.

Profits of all domestic manufacturers have reached record levels. Total 1983 profits for the industry as a whole were $6.3 billion. General Motors' first quarter 1984 earnings were the highest in the company's 76-year history. Chrysler's first quarter earnings exceeded its profits for the entire year of 1983. Ford posted similar gains.

Certainly, some of the improvement in the industry's financial condition has been won through several years of tough cost-cutting efforts directed not only at the companies' own manufacturing facilities but at suppliers as well. The United Auto Workers have granted nearly $5 billion in wage and benefits concessions to U.S. auto makers since 1979. These efforts are to be applauded, and continued efforts in the same direction should be encouraged. But the so-called Voluntary Restraint Agreement, which has limited Japanese auto exports to the United States for four years, has protected our industry and given the auto companies time to modernize and roll up these record profits! Attached to this testimony is an article which appeared in the *New York Times*, outlining the impact of the auto quotas on the U.S. economy and our consumers.

I share the outrage already expressed by others in and out of government that at the first sign of recovery in the industry, in part aided by the quotas, top industry executives voted themselves stratospheric bonuses. Their action came in a year in which labor contracts are to be renegotiated. In addition to the unbelievable sum of $11 million in salaries and bonuses paid out to CEOs alone in the "Big Three" companies, thousands of lower ranking executives were awarded bonuses exceeding the average annual wage of auto workers and most other industrial workers in this country. And auto workers' wages are already 50 percent higher than the average industrial wage in this country. For the American consumer, these restraints have been an expensive experiment—to the tune of some $5 billion a year in higher prices! After U.S. consumers have subsidized this industry through four full years of quotas on Japanese auto imports, are we as policy makers prepared to argue that we should protect the industry further through domestic content legislation? I for one am not.

However, I do not oppose this legislation simply on the basis of the industry's recent sales and profits performance. My objections to the legislation run far deeper. The bill is directed at one industry and would impose severe costs on other sectors of the economy. It would not lead to the gains in the auto industry which its supporters claim would occur. In fact, study after study has concluded that the bill, if enacted, would discourage foreign investment, lead to job losses in other industries, and undermine our current system of trade laws by encouraging industries to seek relief through political might rather than through the soundness of their case; as you know, the International Trade Commission in 1980 found that imports were not the primary cause of our auto industry's problems. The bill would seriously undermine our efforts to reduce protection abroad by imposing GATT-illegal conditions on imports into our markets. And finally, by protecting the U.S. auto industry from foreign competition, it would remove any remaining incentives for the industry to continue its cost-cutting efforts to remain competitive.

The Subcommittee on Trade of the Committee on Ways and Means held extensive hearings on the House version of the domestic content bill during the 97th Congress and additional hearings last fall. Last September, the full Committee adversely reported that bill to the House. Let me summarize briefly some of the findings of studies which were prepared for those hearings. Although other witnesses may have cited some of these findings to you already, I believe they bear repeating.

## ECONOMIC IMPACT

A Congressional Budget Office (CBO) study prepared in 1982 and updated last year concluded that domestic content legislation would lead to an increase in auto prices of nearly $500, would reduce our gross national product by 0.1 percent, and would cause a net loss of about 67,000 jobs in the U.S. economy. As the Director of CBO recently pointed out to this Committee, the recent strong expansion of the economy means that any gains enjoyed by the auto industry under domestic content requirements would be at an even greater cost to other industries that when CBO made these estimates. Put very simply, there just are not enough workers and capital available in this country to meet the needs of growing industries and to satisfy artifically large demand in the auto industry without prices rising and scarcities developing.

To elaborate a bit on the employment effects, since increased employment in the auto industry is one of the key aims of this legislation: CBO estimated that while 38,000 auto-related jobs might be created by 1990, a much larger loss of more than 100,000 jobs would occur in other sectors of the economy, including the export sector. Studies by the Department of Commerce and the respected Wharton Econometric Forecasting Associates reached similar conclusions, with Wharton estimating that 58,000 new auto-related jobs would come at the expense of 356,000 jobs in other sectors. Again, with the recent recovery in the auto industry, the number of new jobs which domestic content legislation could be expected to create would be substantially lower than when these estimates were made. Employment in the auto industry by the end of 1983 had rebounded to almost 850,000 jobs, which is comparable to 1978 levels minus the productivity increases which the industry has achieved. With total employment at these levels, it makes no sense to impose needless hardships on workers in other manufacturing and service industries by enacting protectionist legislation.

### FOREIGN INVESTMENT

The domestic content bill also seeks to increase the level of investment in the United States by foreign producers. Three companies-Nissan, Honda, and Volkswagen—already have made substantial auto-related investments in this country, and Nissan has just announced that it will begin production of passenger cars at its facilities in Smyrna, Tennessee. Even prior to the planned expansion, Nissan's Smyrna truck plant represented the largest single Japanese investment in the United States and Nissan's largest investment outside Japan.

The investment decisions by Nissan and other foreign automakers occurred not under pressure of law, but because it made sense from a business perspective to locate production facilities here. In moving to reduce their costs and maximize their competitiveness, these companies are creating jobs not only for the workers employed directly in the plants but for thousands of Americans in the supply and distribution network. All three of those companies testified before the Trade Subcommittee last year that domestic content legislation would make it extremely difficult for them to justify any expansion of their existing facilities. The president of Nissan told the Subcommittee that if the bill had been law at the time Nissan was considering investing in the United States, he doubted the company would have proceeded with its investment. No company willingly subjects itself to inflexible requirements which limit its ability to attain optimum efficiency and competitiveness.

### TRADE IMPACT

I turn now to the area with which I am most familiar—the implications of the domestic content bill for out own system of trade laws and for our efforts in the GATT to negotiate a reduction of foreign barriers to U.S. exports. In this area, the domestic content bill can be described in one word—disastrous.

The domestic content bill is little more than an import relief bill masquerading as a jobs investment bill. To grant the level of protection envisaged by this bill, and through the legislative route, would set a highly damaging precedent in the efforts which many of us have been making to strengthen our system of trade laws. As Chairman of the Ways and Means Trade Subcommittee, I can attest to you that the auto industry is by no means the only industry that has suffered from high unemployment, low capacity utilization, and import competition in recent years.

By legislating import relief for an industry, we would circumvent established procedures of U.S. trade law and would pave the way for other industries to test their political muscle and demand special relief from the Congress. The International Trade Commission in 1980 determined that factors other than imports were primarily responsible for the recent plight of the U.S. auto industry. In light of the ITC's finding, it would be a travesty for the U.S. Congress to enact legislation of this sort.

### TRADE REMEDIES BILL

As many of you know, I have sponsored a bill which would reform our Nation's principal unfair trade remedy laws. As approved by the Committee on Ways and Means, the Trade Remedies Reform Act of 1984, H.R. 4784, would strengthen and streamline the existing antidumping and countervailing duty laws to address the fact that the conditions of international commerce are changing rapidly. Government intervention throughout the world is growing at a disturbing pace and is changing from a system of outright cash grants to a more insidious form of indirect support and assistance. Remedies for the trade impact of foreign industrial policies, including the targeting of certain industries for special benefits, simply are not available under current U.S. law. It is this void in our law which my bill seeks to address. I believe it represents a first step in putting American industries back on an equal footing with their foreign competitors. Proponents of domestic content legislation argue that such legislation is intended to promote "fair trade" in automotive products. However, I believe that our unfair trade laws, as amended and strengthened by my bill, offer a far more constructive means for dealing with the problem of foreign government intervention and other unfair distortions of free trade. It is better to fight trade distorting government policies with sensible remedies than to emulate them with laws that will ultimately hurt us as much as our trading partners. I hope I can count on your support for this bill when it is referred to the Senate.

## GATT

A second serious concern which domestic content legislation poses in the trade area stems from the fact that the type of import relief sought—minimum local content requirements—is a clear violation of the General Agreement on Tariffs and Trade (GATT). The GATT Council in February of this year adopted an earlier panel report which found the local purchasing requirements of Canada's Foreign Investment Review Act to be a violation of GATT Article III rules on national treatment. In addition to violating Article III, the U.S. Trade Representative's office has testified that domestic content legislation as contained in S. 707 would violate GATT Article XIX rules on quantitative restrictions. In addition to these GATT violations, the bill is inconsistent with U.S. obligations contained in commercial treaties between the United States and most of our major trading partners; and it would violate the U.S.-Canada Automotive Products Agreement, which provides for duty-free treatment of motor vehicles and parts trade between the two countries. Unilateral violation of these agreements would seriously undermine our credibility in negotiations to reduce foreign barriers to our exports of agricultural products, services, high technology products and a wide range of other products currently subject to foreign government import restrictions.

Passage of GATT illegal domestic content legislation means the United States could be faced with demands for compensation for its actions by affected trading partners. Compensation would take the form of reduced U.S. barriers to imports in other, non-automotive sectors. If we fail to pay such compensation, those countries most affected by our domestic content restrictions could retaliate by imposing severe barriers to U.S. exports—most likely on non-automotive products, since the United States exports so few automobiles. In either case, other sectors of the U.S. economy would bear the brunt of any ill-considered actions which we would take to artificially shore up our auto industry. U.S. exports of agricultural items, aircraft, and other high technology products would be probable targets of foreign retaliation.

## U.S. AUTO INDUSTRY COMPETITIVENESS

The final issue which I would like to address today concerns the impact of domestic content legislation on the ability of the U.S. auto industry to become internationally competitive. Four years ago, when the Japanese Government entered into the Voluntary Restraint Agreement, our industry argued it needed temporary "breathing space" to allow it to retool, reduce costs, and launch itself into a new era of competitivenes with foreign—primarily Japanese—automakers, and particularly in the small car market. What we have seen is that instead of increasing production of small cars in the United States, our auto companies have concentrated on the higher-priced large car market and now—in apparent anticipation of the demise of import quotas—are planning to import hundreds of thousands of small cars from Japan and even Korea.

Were we as consumers and policy makers fooled by the rationale of a "needed breathing space?" I would urge us not be fooled by the rationale offered by supporters of the domestic content bill—that it will increase jobs and investment. This protectionist legislation, if enacted, would result inevitably in binding import restrictions on automobiles. The effect would be to create a false market for automobiles in this country, in which consumer choice would be severely constrained and any remaining incentive for moderation in wage and price increases and management bonuses would be largely eliminated. Is this the prescription we would offer in an attempt to return the United States to a more productive, competitive stance internationally? I believe domestic content legislation would act as a tourniquet, which might temporarily ease the wound in one part of the economy but which would lead to stagnation and serious damage to the economy as a whole.

A company's investment and sourcing decisions must be made on the basis of the marketplace and whether they will enhance the company's competitive position, and not on the basis of government fiat. What the proponents of domestic content legislation seem to be saying is that somehow we all would be better off if the government could only frustrate these decisions and impose its own judgment on where companies—foreign and domestic alike—should invest and purchase. Why stop there? Why not block other decisions which have equal or greater impact on employment in the auto industry? For example: in an effort to increase their competitiveness, auto companies reportedly are planning to increase the use of industrial robots which perform tasks at far less cost and with far greater precision in many cases than workers. Since 1978, productivity increases of this nature have led to the permanent loss of an estimated 150,000 jobs in the motor vehicle industry.

Would those who advocate dictating the terms of investment and procurement decision by private companies also advocate attempts to stymie all of the other measures which our auto companies have taken to increase their ability to remain competitive with their toughest international competitors? I hardly see how proponents of this legislation can seriously offer us such logic. In Europe, which has restricted foreign access to its market in autos and in numerous other industries, nearly two million jobs were lost in the ten years to 1983. In the United States, even with our serious recession and very large trade deficit, we have seen the creation of an estimated 17 million jobs during the same period. If you ask which example I believe we should follow, I think those facts speak for themselves.

### CONCLUSION

Mr. Chairman, I, like you, am concerned about the continued high levels of unemployment in the auto industry, as well as in the economy in general. Moreover, I recognize that many American industries today are face with intensified worldwide competition and that trading partners often have substantial labor cost, tax and exchange rate advantages over our industries. However, to focus only on the trade aspects of the problems facing the U.S. automobile industry would be to address only one small portion of the problem. That would be a disservice to all sectors of our economy

The real issue in S. 707 is the efficiency and international competitiveness of the domestic auto industy—and this bill would not improve either. In fact, the bill would actually curtail the industry's flexibility to modernize and cut costs.

In sum, I strongly believe that there are more constructive approaches to deal with unfair international trade practices—such as improving and expediting the U.S. trade remedy laws and reauthorizing trade adjustment assistance programs. The economic and policy costs do not warrant passage of legislation which does not address or remedy the real problems of the U.S. automobile industry.

Senator DANFORTH. The next witnesses are Kenneth W. Dam, Deputy Secretary of State, and Tim McNamar, Deputy Secretary of the Treasury.

Secretary DAM.

## STATEMENTS OF KENNETH W. DAM, DEPUTY SECRETARY OF STATE, DEPARTMENT OF STATE; AND R.T. McNAMAR, DEPUTY SECRETARY OF TREASURY, DEPARTMENT OF THE TREASURY

Mr. DAM. Thank you, Mr. Chairman.

I will submit for the record, if I may, my testimony and take just a short time to summarize it.

It is a pleasure to be here to testify before this committee about S. 707, the fair practices in automotive trade bill.

Last year, Under Secretary Wallis, representing the Department of State, testified against a very similar bill in the House of Representatives. Unfortunately, the bill before you is no more acceptable than that one.

I urge the Senate not to approve S. 707, in its attempt to strengthen the auto industry of the United States. S. 707 would flout our international obligations, would risk retaliation against major American exports, jeopardizing the jobs on which those exports depend, and would encourage other nations to retaliate in kind.

Since the end of the Second World War, the concepts of fortress America and isolationism have given way to interdependence and its demand for a free exchange of ideas, peoples, and goods. Our economic policy for almost 30 years has emphasized the lessening of trade barriers, in order to promote an expanding world economy. We were a founding member of the General Agreement on Tariffs and Trade, the GATT. The GATT has enlarged international trade and brought a wider choice of consumer products, lower prices, and greater profits.

There are firms and nations, of course, that will attempt to take unfair advantage of other countries in the short term. These attempts must be thwarted. To this end we have in place in the United States a series of trade laws to prevent goods being dumped or subsidized into our market, and ways exist for the President to adjust imports of goods that threaten to injure American industries.

The GATT sets rules for fair and free trading among the world's industrialized countries. Under the GATT we have specifically prohibited certain actions, including the domestic content requirements that are embodied in this legislation. Consequently, passage of S. 707 could trigger a process that could end in retaliation. Under the GATT rules, if a member country feels that another member has departed from the rules, and has damaged its interests, that country can ask for a GATT panel to decide the issue. If the panel decides that damage has been done, it will ask that the disputants discuss the matter bilaterally. If no solution is found, the injured country may then request compensation. Finally, if compensation cannot be agreed upon, the injured party may retaliate by raising barriers to selected imports.

Let me stress that the form of retaliation, unlike the other phases of the process, is not the result of a negotiation or an agreement. Rather, the form of the retaliation is decided unilaterally by the injured party.

Some have asserted that there will be no foreign retaliation for our local content requirement. I am not so certain. Let us look at the two countries that would be most directly affected: Japan and Canada.

Japanese automobile exports to the United States have been limited for the last 3 years by voluntary restraint. Nevertheless, the number of Japanese vehicles shipped to the United States has been high. Indeed, the Japanese will ship 1.85 million passenger vehicles to the United States in the year beginning April 1, 1984. Ascribing modestly a value of $6,000 per vehicle, Japanese auto exports earn more than $11 billion.

This is a major element in the Japanese economy. It represents hundreds of thousands of Japanese jobs. A disruption of that trade could lead the Japanese Government to consider retaliation, particularly when the disruption is caused by a measure that violates the internationally agreed upon trading rules.

The focus of the debate on S. 707 has been on Japan, but the bill could also strain our economic relations with another very important trading partner, Canada. Under the Automotive Products Agreement of 1965, the American and Canadian automobile industries have become virtually a single integrated entity. This integration has provided increased efficiencies and lower costs for the operations of the auto companies in North America. The result has been higher employment in the automotive industries in both countries, and a quantum leap in trade.

Seventy percent of North American type vehicles sold in Canada are manufactured in the United States. In 1983, exports of automotive products from the United States to Canada were $14.8 billion, about one-third of all U.S. exports to Canada.

S. 707 would overturn this profitable arrangement and could have broad repercussions on our good relations with Canada. This is a serious risk, a serious risk that Canada would pass mirror image legislation. But even if Canada did not retaliate in kind, the language of S. 707 would make it impossible for us to honor the bilateral automobile pact. As a result, United States-Canadian relations at all levels would certainly suffer.

Finally, I note that the auto industry is not the backer of this bill. The American industry has claimed a right to compete equally. It has not claimed a right to protection nor desire for protection except against unfair practices of other nations.

Sales of American automobiles since the beginning of the year have been rising. The Commerce Department's Office of Automobile Industry Affairs estimates that U.S. firms will produce about 8 million passenger cars in 1984, with imports of about 2,400,000.

While the sales of imported cars in 1983 increased 7 percent, the market share for imports dropped, because of the increase in sales of domestic vehicles. Profits of U.S. automobile firms have hit record levels, and the profits may exceed $10 billion for the year as a whole.

With the increase in profitability and in productivity, the American auto industry has been hiring back formerly laid-off workers. At the end of 1983, industry employment has reached 734,000, an increase of 120,000 jobs over the end of 1982. Another 40,000 workers are expected to be hired or rehired this year. Indeed, in the first quarter of 1984, 7,000 workers were added to the rolls.

Given the increases in worker productivity and the changes in the auto market, it is unlikely that we will see a return to the 1978 level of 1 million employees in the auto manufacturing sector. But the current improvement in employment and profitability indicates a healthier industry and signals less, rather than more need for protection.

Last year at the Williamsburg Summit, President Reagan met with the leaders of other industrial nations and reaffirmed a common commitment to an open trading system. The President and the other leaders pledged to resist protectionism and to dismantle trade barriers as the recovery proceeds.

The legislation before you would effectively reject that international commitment, disrupt our international trade, increase costs to our consumers, jeopardize our exports, and thus cost us jobs in the long run—all at a time when the industry it aims to serve has recently experienced increased sales, profitability, productivity, and employment.

I urge that the Congress turn away from the dangerous course of local content legislation.

[The statement follows:]

## STATEMENT OF KENNETH W. DAM, DEPUTY SECRETARY OF STATE, DEPARTMENT OF STATE

It is a pleasure to be here to testify before this Committee about S. 707, the Fair Practices in Automotive Trade bill. Last year Under Secretary Wallis, representing the Department of State, testified against a very similar bill in the House of Representatives. Unfortunately the bill before you is no more acceptable than that one. I urge the Senate not to approve S. 707.

Local content legislation as embodied in this bill is something to which we have strenuously objected when other countries have flirted with it. In its attempt to strengthen the auto industry of the United States, S. 707 would flout our international obligations; would risk retaliation against major American exports, jeopardizing the jobs on which those exports depend; and would encourage other nations to retaliate in kind. The result could be a trade war, harming the international trading system and our own economy. Local content requirements would not encourage a strong, competitive auto sector. Rather such requirements would nurture a weak uncompetitive industry, demanding eternal shelter from foreign products.

Since the end of the Second World War, the concepts of Fortress America and isolationism have given way to interdependence and its demand for a free exchange of ideas, people and goods. The foreign policy of the United States no longer visualizes a withdrawn, self-sufficient country that looks abroad only when forced to do so. Rather, our nation is vitally concerned with international problems and their solutions. This shift to an outward-looking policy was a conscious, rational decision based on the economic realities of expanding markets.

Our economic policy for almost thirty years has thus emphasized the lessening of trade barriers. In order to promote an expanding world economy, we were a founding member of the General Agreement on Tariffs and Trade (the GATT). The GATT has been successful in the main. It has enlarged international trade and brought a wider choice of consumer products, lower prices and greater profits.

There are firms and nations, of course, that will attempt to take unfair advantage of other countries in the short term. These attempts must be thwarted. To this end we have in place in the United States a series of trade laws to prevent goods being dumped or subsidized into our market. And ways exist for the President to adjust imports of goods that threaten to injure American industries.

The GATT sets rules for fair and free trading among the world's industrialized countries. Under the GATT we have agreed, among other things, to limit the kinds of restrictions we are allowed to place on imports. We have specifically prohibited certain actions, including the domestic content requirements that are embodied in this legislation. Consequently, passage of S. 707 could trigger a process that could end in retaliation.

Under the GATT rules if a member country feels that another member has departed from the rules and has damaged its interests, that country can ask for a GATT panel to decide the issue. If the panel decides that damage has been done, it will ask that the disputants discuss the matter bilaterally. If no solution is found, the injured country may then request compensation. Finally, if compensation cannot be agreed upon, the injured party may retaliate by raising barriers to selected imports.

Let me stress that the form of retaliation, unlike the other phases of the process, is not the result of a negotiation or an agreement. Rather, the form of retaliation is decided unilaterally by the injured party. Any retaliation against the United States, for example, would probably be against whatever industrial or agricultural products the foreign country would prefer not to import.

Proponents of this legislation claim that it would create jobs. Indeed, some new jobs could be created in the auto manufacturing sector. But the net long-range effect on the American economy would be an overall job loss. Those who are employed in port services, transportation, and servicing of imported cars will be losers even in the short term. And possible foreign retaliation against U.S. exports could cost jobs too; according to the Congressional Budget Office, every one billion dollars of exports represents 25,000 jobs.

Some have asserted that there will be no foreign retaliation for our local content requirement. I am not so certain. Let's look at the two countries that would be most directly affected, Japan and Canada.

Japanese automobile exports to the United States have been limited for the last three years by a voluntary restraint. Nevertheless, the number of Japanese vehicles shipped to the United States has been high; indeed the Japanese will ship 1.85 million passenger vehicles to the United States in the year beginning April 1, 1984. Ascribing, modestly, a value of $6,000 per vehicle, Japanese auto exports earn more than $11 billion. This is a major element in the Japanese economy. It represents hundreds of thousands of jobs. A disruption of that trade could lead the Japanese Government to consider retaliation, particularly when the disruption is caused by a measure that violates the internationally-agreed upon trading rules. Indeed, Japan has already initiated a GATT proceeding against us because of our restrictions on motorcycles—a much less important item of trade in dollar value than automobiles.

The focus of the debate on S. 707 has been Japan. But the bill could also strain our economic relations with another very important trading partner, Canada.

Under the Automotive Products Agreement of 1965, the American and Canadian automobile industries have become virtually a single, integrated entity. This integration has provided increased efficiencies and lower costs for the operations of the auto companies in North America. The result has been higher employment in the automotive industries in both countries and a quantum leap in trade. Seventy percent of North America type vehicles sold in Canada are manufactured in the United States. In 1983 exports of automotive products from the United States to Canada were $14.8 billion, about one third of all U.S. exports to Canada.

S. 707 would overturn this profitable arrangement and could have broad repercussions on our good relations with Canada. There is a serious risk that Canada would pass mirror image legislation. When we raised barriers to specialty steel imports last year, Canada imposed barriers to our exports of specialty steel. Therefore, if Canada decides to retaliate against S. 707, one can assume that such retaliation would take place in the auto sector. Automotive firms and workers on both sides of our border would suffer from such a pointless exercise.

But even if Canada did not retaliate in kind, the language of S. 707 would make it impossible for us to honor the bilateral auto pact. As a result, U.S.-Canadian relations at all levels would sour.

This legislation would also impose significant direct additional costs on consumers. According to Department of Commerce estimates, automobile prices would increase by about $450 per car. No wonder that a number of agriculture organizations and consumer groups have opposed this legislation.

These consumer groups are not alone in opposing S. 707. I note that the auto industry is not the backer of this bill. The American industry has claimed a right to compete equally. It has not claimed a right to protection nor a desire for protection except against unfair practices of other nations. Sales of American automobiles since the beginning of the year have been rising. The Commerce Department's Office of Automotive Industry Affairs estimates that U.S. firms will produce about 8 million passenger cars in 1984, with imports at about 2.4 million. While the sales of imported cars in 1983 increased 7 percent (i.e. from 2.2 to 2.4 million units), the market share for imports dropped because of the increase in sales of domestic vehicles. For example, according to Ward's Automotive Reports, the 29.6 percent share of new registrations for Japanese vehicles in 1982 dropped to 22% in 1983. Profits of U.S. automobile firms hit record levels in the first quarter of 1984; the industry's profits may exceed $10 billion for the year as a whole.

With the increase in profitability and in productivity, the American auto industry has been hiring back formerly laid off workers. At the end of 1983 industry employment had reached 734,000—an increase of 120,000 over the end of 1982. Another 40,000 workers are expected to be hired or re-hired this year. Indeed, in the first quarter of 1984, 7,000 workers were added to the rolls. Given the increases in worker productivity and the changes in the auto market, it is unlikely that we will see a return to the 1978 level of 1 million employees in the auto manufacturing sector. But the current improvement in employment and profitability indicates a healthier industry and signals less rather than more need for protection.

Last year at the Williamsburg Summit, President Reagan met with the leaders of other industrial nations and reaffirmed a common commitment to an open trading system. The President and the other leaders pledged to resist protectionism and to dismantle trade barriers as the recovery proceeds. The legislation before you would effectively reject that international commitment, disrupt our international trade, increase costs to our consumers, jeopardize our exports and thus cost us jobs in the long run—all at a time when the industry it aims to serve has recently experienced increased sales, profitability, productivity and employment. I urge that the Congress turn away from the dangerous course of local content legislation.

Senator DANFORTH. Thank you very much, Mr. Dam.

Mr. McNamar.

Mr. MCNAMAR. Thank you, Mr. Chairman.

I have a longer version of my testimony I would like to submit for the record, and I have a shorter reading version.

We welcome the opportunity to present the Treasury Department's views on one of the most troubling pieces of trade legislation to be considered since Smoot-Hawley—the proposed bill to impose local content requirements on automobile sales in the

United States. Although introduced in a well-intended effort to preserve jobs in the automobile industry, local content would have profound negative implications for our own economy, the international trading system, and ultimately the people it would be intended to help—the average working man and woman in America.

The administration strongly opposes local content legislation in any form whatsoever. In general, such legislation would be a giant step away from the open market economy that benefits us all. It would transfer income from U.S. consumers and exporters to autoworkers and parts producers. It would mortgage the future of the automobile industry and prevent the adjustment necessary to have a viable automobile industry in this country. It would jeopardize jobs in the export sector, and violate U.S. international obligations on an unprecedented scale, and conflict with commitments to avoid protectionism. It would threaten the unraveling of the international trading system and stifle worldwide economic recovery.

Today, however, I would like to concentrate my remarks on my deep concern about the adverse implications of this legislation for the U.S. economy. Local content legislation provides an especially pernicious form of protection for industries. The basic principle of local content is that local inputs must be used whether or not they are competitive. If local inputs are competitive, the legislation is not necessary. If they are not competitive, the legislation protects and rewards inefficiency, while forcing U.S. consumers to pay the cost, i.e., it is a hidden inflationary tax falling on those who must purchase cars.

Perversely, there would be no incentive to keep U.S. costs down. In fact, the higher U.S. cost, the easier it is to meet the local content requirement. Application of this principle to the economy as a whole would doom us to an unproductive, inflationary, and inefficient economy. And it is for these reasons that the administration is opposed to the principle of local content.

As you know, the U.S. auto industry has been engaged in a massive effort to meet intense foreign competition in the U.S. market. It has worked hard to improve productivity, to become more innovative and efficient, and to offer consumers once again the kinds of autos they demand.

Local content legislation can only undo these efforts at a cost to the rest of the economy. We must not delude ourselves that local content requirements can be phased out or eliminated. After 5 years of inefficiencies that local content will induce, U.S. auto manufacturers, parts producers, and workers will not be able to compete internationally. They will be hooked on protectionism—a permanent drag on the rest of the U.S. economy.

According to our analysis, this legislation has a paradoxical effect of tying the hands of U.S. auto manufacturers with high levels of local content while apparently permitting numerous smaller foreign manufacturers to nip their heels.

The impact on the U.S. auto industry would be substantial. At a time when the industry is beginning to make the necessary adjustments, this bill would preclude it from competitive worldwide sourcing. At the same time, the industry would be vulnerable to imports from many foreign manufacturers with fewer U.S. sales, which would not suffer the inefficiencies prompted by local content requirements. Calls for tighter and more costly local content requirements would only be a matter of time.

There are additional costs to the economy besides the inefficiencies inherent in local content legislation. Implicit in local content legislation is the acceptance of the principle that is acceptable public policy to require transfer payments from the rest of the economy to a particular sector—in this instance, autoworkers and parts producers. Indeed, this bill could be considered an income redistribution bill designed to have the average American's income taxed and redistributed to automobile industry workers and managers.

U.S. consumers can expect to pay more for automobiles as a result of reduced foreign competition and a more inefficient domestic economy. Indeed, the Commerce Department estimates the aggregate cost to consumers from higher auto prices due to local content at $4.8 billion. U.S. exporters, generally our most efficient industries, can also expect to suffer.

If other major industrial countries retaliate by restricting imports of U.S. agricultural products or export-dependent industrial goods, or if they mimic U.S. content requirements for other industries, U.S. exporters will pay the price of protection for the auto industry at home.

As auto exporting countries earn less income from their auto exports to the United States, their ability to purchase U.S. goods will also be diminished. Such countries may also purposefully choose to purchase non-U.S. products whenever they can as a subtle, indirect form of retaliation.

The potential risk to our exporting industries is substantial and must not be ignored, especially at a time when U.S. industries are clamoring for increased Government assistance to exports.

The nature and extent of any jobs gain in the auto industry from this form of legislation is questionable. There is, however, no question that the legislation itself would jeopardize jobs in other parts of the economy, such as the export and auto import handling sector. It would also cost the economy in terms of higher prices for consumers through the closing of imported auto dealerships. At best we could expect a net gain in employment of some 6,500 jobs in the auto sector. This gain, however, must be weighed against lost employment in the export sector. Perhaps most costly would be the long-term shrinkage of world trade, which this measure would almost certainly entail.

With the United States taking such a protectionist step, despite commitments to refrain from such measures, other major countries are almost certain to follow with similar protective measures for their ailing industries.

Heretofore, local content legislation has been employed primarily by developing countries. Its adoption by the United States would legitimize its option with all the attendant costs by other developed countries. Even if other countries failed to adopt local content legislation, they would feel less constrained in adopting other creative protective measures. And how could we legitimately criticize them if they did?

Local content legislation would thus be the first arc in a deadly protectionist spiral that can only lead to reduced global as well as

U.S. income and well-being. Clearly, the burden on the rest of the economy from such legislation is too high. The United States cannot afford the luxury of passing legislation which inevitably promotes a noncompetitive industry which would act as a drag on the entire economy.

The economic law of comparative advantage still exists. This legislation will not change it. Rather, we must stick with macroeconomic policies which promote industries which are competitive domestically and worldwide, contributing to sustained noninflationary growth. We cannot afford to foster industries that thwart these goals, and must be supported at a high cost to the rest of the economy.

Trade restrictions are not the answer to fundamental economic problems. If we adopt this legislation, we will be setting a protectionist tone for world trade for years to come. A better answer has been pursuing policies to create the environment in which U.S. industries can again become healthy, vigorous, and competitive.

When this legislation was introduced in 1982, the U.S. auto industry was an ailing giant. At that time, we said that the solution to the industry's problems was economic growth, not protectionism. With the recovery, the industry has rebounded dramatically. We must not now shackle it with this legislation.

And I would just close, Mr. Chairman, by adding that if you look at the latest automobile figures, you will see that U.S. automakers posted a 21.8-percent increase on a daily rate basis in their mid-May sales, and analysts said the recent hikes in consumer interest rates are not scaring car buyers away.

And I would like to add this to my longer statement for the record, if I may.

Thank you.

[The statement follows:]

## STATEMENT OF R.T. MCNAMAR, DEPUTY SECRETARY OF THE TREASURY, DEPARTMENT OF THE TREASURY

I welcome the opportunity to present the Treasury Department's views on one of the most troubling pieces of trade legislation to be considered since Smoot-Hawley: The proposed bill to impose local content requirements on automobile sales in the United States. Although introduced in a well-intentioned effort to preserve jobs in the auto industry, local content would have profound negative implications for our own economy, the international trading system, and ultimately, the people it would be intended to help—the average working men and women in America.

The Administration strongly opposes local content legislation in any form whatsoever. In general, such legislation would:

—be a giant step away from the open market economy that benefits us all;

—transfer income from U.S. consumers and exporters to auto workers and part producers;

—mortgage the future of the auto industry and prevent the adjustment necessary to have a viable automobile industry in this country;

—jeopardize jobs in the export sector;

—violate U.S. international obligations on an unprecedented scale and conflict with commitments to avoid protectionism;

—threaten the unraveling of the international trading system; and

—stifle worldwide economic recovery.

Today, however, I would like to concentrate my remarks on my deep concern about the adverse implications of this legislation for the U.S. economy. When we ask ourselves whether this legislation contributes to the type of economy we all want—one that is efficient, prosperous, and able to adjust to changing economic circumstances—the answer is clearly no.

## PERNICIOUS PROTECTION

Local content legislation provides an especially pernicious form of protection for industries. The basic principle of local content is that local inputs must be used whether or not they are competitive. If local inputs are competitive, the legislation is not necessary. If they are not competitive, the legislation protects and rewards inefficiency while forcing U.S. consumers to pay the costs; i.e., it is a hidden inflationary tax falling on those who must purchase cars.

Perversely, there would be no incentive to keep U.S. costs down (in fact, the higher U.S. costs, the easier it is to meet the local content requirement). Application of this principle to the economy as a whole would doom us to an unproductive, inflationary, inefficient economy. It is for these reasons that the Administration is opposed to the principle of local content.

As you know, the U.S. auto industry has been engaged in a massive effort to meet intense foreign competition in the U.S. market. It has worked hard to improve productivity, to become more innovative and efficient, and to offer consumers once again the kinds of autos they demand. Local content legislation can only undo these efforts, at a cost to the rest of the economy. Let me elaborate.

Local content legislation flies in the face of adjustment to international competition and seeks to repeal the economic laws of comparative advantage. By offering permanent protection with no incentives for efficiency it promotes a perpetually inefficient industry that can ultimately only be protected at a cost to the rest of the economy.

We must not delude ourselves that local content requirements can be phased out or eliminated. After five years of the inefficiencies local content will induce, U.S. auto manufacturers, parts producers and workers will not be able to compete internationally. They will be hooked on protection, a permanent drag on the rest of the economy.

Our objections to local content are not not merely theoretical. Take, for example, the OECD experience. Of the twenty-two OECD members countries only Greece, Portugal, Turkey, Spain and Australia impose local content requirements. As a group, these countries are not noted for the efficiency of their auto industries. Indeed, the Australian experience has resulted in a high-cost, inefficient industry which has led to calls by consumer groups for trade liberalization. Australian automobile production and employment have continued to fall despite the estimated 1 billion dollar per year cost to consumers.

According to our analysis, this legislation has the paradoxical effect of tying the hands of U.S. auto manufacturers with high levels of local content while apparently permitting numerous smaller foreign manufacturers to nip at their heels.

Because of their high volume of sales, U.S. manufacturers would have to meet local content requirements of 90 percent. In return, they would be protected from any one foreign manufacturer getting a large share of the U.S. market without meeting similar requirements. They would not, however, be protected from imports in general. Under the definition of local content, many manufacturers may be able to sell as many as 400,000 cars annually apiece without substantial increase in purchases of U.S. parts or investment in U.S. facilities.

The impact on the U.S. auto industry would be substantial. At a time when the industry is beginning to make the necessary adjustments, this bill would preclude it from competitive worldwide sourcing. At the same time, the industry would be vulnerable to imports from many foreign manufacturers with fewer U.S. sales which would not suffer the inefficiencies prompted by local content requirements. Calls for tighter—and more costly—local content requirements would only be a matter of time.

Thus, the problem with this local content legislation, is not that it is unfair to the U.S. industry and too soft on imports. Rather, the problem is with the concept of local content itself. Adopting local content legislation that does not protect the industry now only opens the door to stricter local content requirements later, with enormous future costs. Again, let me emphasize that there are no "fixes" that will make the concept of local content legislation acceptable to this Administration.

## OTHER COSTS OF LOCAL CONTENT LEGISLATION

There are additional costs to the economy besides the inefficiency inherent in local content legislation. Implicit in local content legislation is acceptance of the principle that it is acceptable public policy to require transfer payments from the rest of the economy to a particular sector, in this instance auto workers and parts producers. Indeed, this bill could be considered an income redistribution bill designed to have the average American's income "taxed" and redistributed to automobile industry workers and managers.

U.S. consumers can expect to pay more for automobiles as a result of reduced foreign competition and a more inefficient domestic industry. Indeed, the Commerce Department estimates the aggregate cost to consumers from higher auto prices due to local content at $4.8 billion. U.S. exporters, generally our most efficient industries, can also expect to suffer. If other major industrial countries retaliate by restricting imports of U.S. agricultural products or export-dependent industrial goods, or if they mimic U.S. content requirements for other industries, U.S. exporters will pay the price of protection for the auto industry at home. As auto exporting countries earn less income from their auto exports to the United States, their ability to purchase U.S. goods will also be diminished. Such countries may also purposefully choose to purchase non-U.S. products whenever they can as a subtle, indirect form of retaliation. The potential risk to our exporting industries is substantial and must not be ignored—especially at a time when U.S. industries are clamoring for increased government assistance to exports.

The nature and extent of any jobs gain in the auto industry from this legislation is questionable. There is, however, no question that the legislation itself would jeopardize jobs in other parts of the economy, such as the export and auto import-handling sector. It would also cost the economy in terms of higher prices for consumers and through the closing of imported auto dealerships. At best we would expect a net gain in employment of 6,500 in the auto sector. This gain, however, must be weighted against lost employment in the export sector.

Perhaps most costly, however, would be the long-term shrinkage of world trade which this measure would almost certainly entail. With the United States taking such a protectionist step, despite commitments to refrain from such measures, other major countries are almost certain to follow with similar protective measures for their ailing industries. Heretofore, local content legislation has been employed primarily by developing countries. Its adoption by the United States would legitimize its adoption, with all the attendant costs, by other developed economies. Even if other countries failed to adopt local content legislation, they would feel less constrained in adopting other creative protective measures. And how could we legitimately criticize them if they did? Local content legislation would thus be the first arc in a deadly protectionist spiral which can only lead to reduced global, as well as U.S., income and well-being.

Clearly, the burden on the rest of the economy from such legislation is too high.

### WE CANNOT REPEAL THE LAWS OF ECONOMICS

The United States cannot afford the luxury of passing legislation which inevitably promotes a noncompetitive industry, which would act as a drag on the entire economy. The economic law of comparative advantage will still exist. This legislation won't change it. Rather, we must stick with macro policies which promote industries which are competitive domestically and worldwide, contributing to sustained non-inflationary growth. We cannot afford to foster industries that thwart these goals and must be supported at a high cost to the rest of the economy.

Trade restrictions are not the answer to fundamental economic problems. If we adopt this legislation we will be setting a protectionist tone for world trade for years to come. A better answer has been pursuing policies to create the environment in which U.S. industries can again become healthy, vigorous and competitive.

When this legislation was introduced in 1982, the U.S. industry was an ailing giant. At that time we said that the solution to the industry's problems was economic growth, not protectionism. With the recovery the industry has rebounded dramatically. We must not now shackle it with this legislation. Furthermore, I am advised by the OMB that enactment of S. 707 would not be in accordance with the program of the President.

Senator **Danforth**. Gentlemen, thank you very much.

Secretary Regan has written Chairman Packwood, stating the administration's strong opposition to S. 707, and the Secretary's letter will be included in the record.

It is often said that one of the main problems we have with trade with Japan is the relative value of the dollar and the yen. We have been reading recently of the negotiations that have taken place between the administration and the Japanese with regard to the yen.

Does the undervaluation of the yen, in your opinion, justify the enactment of domestic content legislation, or would domestic content legislation exacerbate the problems we have in trying to work out the yen-dollar valuation problem?

Mr. **McNamar**. I think it would clearly exacerbate the problems. It is not clear that the yen is undervalued or overvalued or valued appropriately, at this point in time. But I am pleased to tell you, Mr. Chairman and other members of the committee, that at the urging of Congress, at the urging of academics in the United States, and at the urging of the business community, the Federal Reserve and the Treasury Department, the State Department, and Commerce did develop a program which we presented to the Japanese at the time of President Reagan's visit there last fall, to try to work out some of the apparent barriers to a well-accepted valuation of the yen; that is, one that everyone would believe is a fair valuation.

I think this program, which was finished this week in a draft report that was concluded in Rome yesterday, and will be submitted to Secretary Regan and Finance Minister Takeshita, and that we hope to have published around the 29th or 30th of this month, in advance of the summit, addresses the kinds of criticisms that have been made of Japan in the past, and whether it is "rigging the yen;" and I think goes a long way toward satisfying the critics of Japan in this regard, and that also goes a long way toward integrating Japan fully into the financial system, commensurate with its trading prowess, and its rank as the second largest economy in the free world. And I think it is—I think it will be—regarded in time, and it will take time to have an effect. I think in time it will be regarded as a bit of a milestone.

Senator **Danforth**. Would the undervaluation of the yen, in the opinion of either of you, justify passing domestic content legislation?

Mr. **McNamar**. No.

Mr. **Dam**. I certainly would agree, and moreover, it is not, whatever one's view of the exchange rate is, that is probably not the fundamental problem. The fundamental problem with regard to cost is the much higher wages in the automobile industry in the United States than in other industries in the United States, and that cannot possibly be an exchange rate problem. So that the domestic content legislation would not meet the problem, in any event, from that standpoint.

Senator **Danforth**. Some people have argued that other countries are very restrictive with respect to automobiles. They have domestic content legislation of their own. We had a chart, which was before us last week, which indicated that Spain and Italy and other countries had restrictions on imports, and therefore, it was said that we should also.

Would that be a reasonable justification for domestic content, that everyone else is doing it, therefore we should be doing it; or that because other people are doing it, they are not in a good position to retaliate against us if we do it?

Mr. **Dam**. Well, I would say the following. First of all, it is not true that everybody has local content regulations. By and large it is only less developed countries. They have pursued a certain path, and as a result, they have injured their own development, and I think that tells you something about whether it is a wise policy.

With regard to other kinds of duties, of course we have had other kinds of restrictions. We have had those restrictions; for example, tariffs in the automobile industry here. So they are subject to negotiation within the GATT.

Retaliation—well, countries can retaliate, in any event. And I recall one time when the Canadians, in the 1960's, began to think about local content legislation, and we reacted extremely hostilely to that. And that, of course, was the real origin of the United States-Canadian automobile pact.

So that I do not see too much relationship between the fact that there are some trade barriers in other countries and what our policy in the United States ought to be.

Senator **DANFORTH**. Secretary McNamar, do you want to add to that?

Mr. **McNAMAR**. No; I would just concur in that.

Senator **DANFORTH**. Senator Riegle.

Senator **RIEGLE**. Has Japan ever filed a GATT complaint against any of the other industrial nations that have limited Japanese imported cars?

Mr. **DAM**. I am not aware of any such claim.

Senator **RIEGLE**. I am not either, but I presume you would be if there had been such a GATT filing. I would think that would be quite a significant development, and it would be something that you would be aware of.

Mr. **DAM**. I presume so.

Senator **RIEGLE**. Well, I think that is very significant because, as you pointed out, there are about 30 nations with domestic content laws, but all the rest of the nations, as I have been able to determine, have either quota systems, nontariff barriers, or domestic content as the way of limiting the penetration of imported cars into their economies, including, by the way, Japan. Japan has used its own set of devices, but it has been very effective. Foreign penetration in the Japanese auto market is less than 1 percent.

I assume you are familiar with those numbers.

Mr. **DAM**. I think that is about right.

Senator **RIEGLE**. Are you familiar with any other industrial nation in the world that has not acted one way or another, either through quotas, or nontariff barriers, or domestic content, to limit Japanese imports?

Mr. **DAM**. Well, I think if you include voluntary restraints, that there probably is a lot to that. I am not able to answer that question conclusively, but I think the thrust of your suggestion is basically right.

Mr. **McNAMAR**. I would guess that is probably correct.

Senator **RIEGLE**. The reason I think it is important to establish that is, that in a sense, those of us who hold to a view of free trade that fits textbook models run up against the facts in the case of the automobile, the worldwide automobile market. There are no more open markets, as we would define them, left in the world for the sale of cars from other nations.

Mr. **DAM**. Now, we are talking about Japanese exports. I do not think you would find that was true generally with respect to imports in Europe, for example. They import freely from other European countries. We are talking just about Japan.

Senator **Riegle**. I think that is a very important point to make, because Japan really has been the nation that has been, in essence, a predatory trader in the sale of their cars—not just in our market, but in other markets around the world. And you are quite right, I think, in noting that we have acted against it by insisting on what we call voluntary import limitations; and those have been the product of our own Government's pressure. But so have all the other industrial nations acted against Japan that way. Great Britain, as I am sure you know, has; Germany has, and France has. And it has, in a sense, been aimed principally at Japan, because Japan is seen as the nation who has been the predatory trading nation in automobiles around the world.

Is that not correct?

Mr. **Dam**. I do not know if I would accept the predatory adjective.

Senator **Riegle**. Well, let us leave that aside.

Mr. **Dam**. European countries have discriminated against Japanese exports over the past few decades, as Japan has become stronger and stronger, and it costs have fallen relative to the costs in Western Europe.

Senator **Riegle**. I think it is very important that that be on the record that the other nations have acted, and they have all acted. And now we find a situation where Japan, as a matter of fact, has a lot of unused automobile capacity, that it might produce cars for export, but it has no markets left in which it can sell that extra production, because they have been blocked out and limited in all the other nations, and certainly all of the other nations that have markets of any size. And so the only remaining market of any material consequence is the U.S. market where they now have a 21-percent market share.

Have you done any estimates as to what might happen in the way of Japanese penetration if the voluntary import limits come off next spring? And I pose the question with another fact for you to consider. Our analysis, the analysis that we have done of the manufacturing capacity for automobiles in Japan, would indicate that with existing capacity, they could crank out probably another 4 million cars over a 12-month period. So that they have the potential to build that many additional cars if, for example, they were free to sell them in our country, which presumably they would have an interest in doing if the voluntary import limitations came off next spring.

Have you taken a look at what you think the increase in Japanese share might be in the U.S. market, given the fact that they have unused capacity, and what their market share might go to, say, over the period of a year or two, if the voluntary import limitations were taken away, and there were no other things in place?

Mr. **Dam**. The Department of State has not attempted to assess the excess capacity. I suspect that Commerce may well have done so.

I would say, though, that with regard to the question of whether we are the only market, the Federal Republic of Germany and several of the smaller European countries followed, not preceded, our own interest in voluntary restraints. So that I do not know that you can necessarily assume that they might, if we were to change our attitude, that they might not change theirs.

Senator **Riegle**. Do you know what the limit is, by the way, in West Germany today, in terms of the market share they allow the Japanese in their cars?

Mr. **Dam**. I do not have that, but I would be glad to provide what we have on that for the record.

[The following information was subsequently received for the record:]

According to information provided by the United States Motor Vehicle Manufacturers Association and the United Automobile Workers, Japanese automobiles accounted for 10.4 percent of all auto sales in the Federal Republic of Germany in 1980; 10 percent in 1981; 9.8 percent in 1983; and 9.4 percent in 1984.

Senator **Riegle**. It is about 10½ percent. And the reason that I think it is important to take a minute on that is that it is about half of what we have established. The Japanese penetration here is 21 percent—obviously more than just a 100-percent increase, because we are a much larger automobile market.

Mr. **Dam**. On the other hand, the Germans import a lot of cars from other European countries, and we have a very small percentage of European imports, around 3 percent, I think, at my last check.

Does that correspond to your numbers?

Senator **Riegle**. I beg your pardon?

Mr. **Dam**. Our percentage of European imports is very small, whereas the German percentage of imports from other European countries is very large. So, it is not true that we are more receptive to imports than, say, Germany.

Senator **Riegle**. We would be less than 10 percentage points, something in the range of probably 5 or 6 percent.

I have a couple of other questions I want to address, but my time is up.

Senator **Danforth**. Senator Ford.

Senator **Ford**. Thank you, Mr. Chairman. I will try to be brief so my colleague from Michigan can continue his questioning.

But, M McNamar, you said you did not know whether the yen was overvalued, or undervalued, or whatever. If you come from the Treasury and you do not know, who could give us the answer?

Mr. **McNamar**. Well, the markets give you that answer. There is no one person that can give you that answer. I have had a lot of conversations on this subject, and the more I learn about it, the more of an agnostic I become of anyone who says they have the right answer.

Senator **Ford**. Well, somebody could give you a consensus, could they not, as to whether it is overvalued or undervalued? There ought to be a trend line?

Mr. **McNamar**. There is about $100 billion traded every day by—I do not know—probably 50,000 people around the world every day, and at the close of business in every market every day, they do give you that consensus.

Senator **Ford**. But it is based on a lot of factors.

Mr. **McNamar**. That is right.

Senator **Ford**. Are you just trying to tell us that no one can know and nobody would have any idea except what was traded that day, and at the end of that day, you could give some kind of idea on whether it is overvalued or undervalued?

Mr. McNamar. There is a whole host of proxies that people use—purchasing power parity theories, and all sorts of different measures that people use to decide that a currency is over or undervalued.

Senator Ford. What does the Treasury Department use?

Mr. McNamar. We use the closing value that day.

Senator Ford. Whatever it was that day, that is what you start on the next morning?

Mr. McNamar. Well, it works 24 hours a day, which is what we do.

Senator Ford. So, really, the only thing you can give me is just look at it at the end of each day, or midnight, or early the next morning, and that will give me some idea of whether it is undervalued or overvalued.

Mr. McNamar. No. That just tells you the current market for the yen, or the deutschemark, or whatever. I think the point is the value for a currency at any point in time is set by an immense number of trades in the financial sector, not just movement of goods. The traditional textbook approach was basically a trade-based valuation. And I think that was probably appropriate during the 1950's, or perhaps even the 1960's.

Twenty years later, we have seen the integration of the world's financial markets to a degree that is unprecedented and unanticipated, and certainly unexplained in the academic halls today. And the reality of the real world, caused by the chip and the cathode ray tube, and instant communication, simply exceeds the academic theory.

My own personal view is the value of the currency is largely determined by the anticipated discounted differential in the after-tax real rate of return from alternative investments in two different countries having the same maturity structure and risk factors. But that is a fairly complicated assessment that is made—a judgment that is made by a lot of traders around the world each day.

Senator Ford. Mr. Chairman, would it be possible for me to extract from the record the statement of the Secretary that he just made, so that I can try to understand it? I am very serious with you. You just went everywhere, and you have just got to make it plain, so I can understand it. And there are a lot of people out there that want to understand what is going on. I hope I represent those people. If you could put it in language I could understand, and maybe others would understand it.

But there is an imagery out there that Japan regulates their yen so that it is undervalued, and their cars are less, and therefore they can sell cheaper.

Mr. McNamar. I think you are exactly right, Senator. There is still that perception in this country.

Senator Ford. I am right on the perception, or right on the country undervaluing the yen?

Mr. McNamar. You are right on the perception still being here, and I think there was a time when you may have been right, that the Japanese Government and central bank was consciously pursuing policies to keep the yen undervalued.

Senator FORD. How long ago was that?

Mr. MCNAMAR. I cannot give you a clean date on that, but I am going to say 20 years ago or so, when they were still trying to recover from the war, and were so dependent upon exports to pay for imported oil and other things. Maybe it was more recent than 20 years ago, but we have been sensitive to the public perception and the market perception. And the heads of state meeting at Versailles, at the economic summit over there, in fact authorized a study of the international monetary system and exchange rate intervention, which was for the first time—I believe it was the first time that governments exchanged their internal data about how their intervention policies were working, and then began to try to look for these values on a very forthright way.

And frankly, we can find no evidence that Japan consciously pursues any policy that undervalues the yen, because it would raise their price of oil, for one thing.

Senator DANFORTH. We are going to have another round of questions, because I know Senator Riegle has more questions. So do I.

First, it is my understanding that Japan has used the GATT at least once against the United States relating to the duty on cab chassis, for trucks, and there may have been other cases, but that is my understanding; that there is at least one GATT case that is now pending.

It is said that there is an unfair tax advantage that the Japanese enjoy and that the Japanese Government gives tax rebates for auto exports. Do the Japanese have an unfair tax advantage over the United States, and if they do have an unfair tax advantage, would that justify domestic content legislation?

Mr. MCNAMAR. I do not believe they do, Mr. Chairman.

The taxes in Japan on the cars, on the labor that is incorporated in a car there, is probably somewhere around $600 less than in the United States, is the estimate. They have what is called a commodity tax, which is really like a sales tax, that is collected at the manufacturing level. When they export, there is a rebate on that which is consistent with GATT.

But it does not seem that if you were to remove that tax, it would make much of a difference. I mean, let us look at a couple of hypotheticals. Let us assume for a moment that the Japanese repealed that tax completely. Well, I think you might anticipate, if you assume some elasticity of demand, that means the Japanese domestic sales would increase, but there is no indication that the Japanese export prices would increase, because recall that tax is currently rebated, so that would make no difference.

If the United States, for example, were to adopt that identical tax—in other words, we collected a tax instead of the Japanese doing that—well, then, basically both U.S. cars, which would rise to that price, and Japanese cars, would simply cost more here.

Again, if you assume some elasticity of demand, you would have to assume that U.S. automobile sales would be hurt; and so, I think, that would probably be a counterproductive move if the United States were to adopt that type of a tax in an effort to equalize the tax treatment with Japan.

Senator **Danforth**. Do either of you have an opinion as to whether or not retaliation would ensue with the passage of domestic content, or imitation by other countries?

Mr. **Dam**. I could take a stab at that if you like, with regard to the Japanese. I did address that in my statement, including the part that I gave here orally.

It seems to me the amount is very great, and the pressure on them domestically to do something within the GATT would also be very great. We have to remember that they have already started proceeding on motorcycles because of our restrictions there, which is a much, much smaller volume of trade. And so, I think from that, one could infer that the probability is very high.

With regard to the Canadians, I think it is much higher, and potentially much more serious, because of the tremendous volume of trade we have, including automobiles, with the Canadians.

Now, you know last year we imposed some restrictions on specialty steel, and the Canadians retaliated. They retaliated on specialty steel. So we know what the practice of the Canadians has been.

Senator **Danforth**. Secretary McNamar.

Mr. **McNamar**. Well, I think it is almost inconceivable that the political pressures in other countries would not demand that they retaliate in some way on those export sectors where the United States currently enjoys a market advantage in those individual countries. So, I think yes, it is almost a certainty that there would be retaliation against the United States.

Senator **Danforth**. Senator Riegle.

Senator **Riegle**. Let me try to cover a couple of other things that we have not raised yet.

We are running about a $30-billion trade deficit now with Japan, of which about $20 billion of the $30 billion is for cars and trucks. That is the principal area of that trade deficit. And that involves, in essence, a net outflow, at least through the trade account, of $30 billion to Japan on an annual basis. So that money leaves our economy, and in a sense weakens us, strengthens them.

And on the other hand, in the defense area, as you know, we are spending very enlarged sums of money for the free world defense effort and buildup, and we are spending now about 7 percent of our gross national product on defense, whereas Japan is spending less than 1 percent of their gross national product on defense.

And when I look at these things together, I say to myself, if these trend lines continue indefinitely where, on the one hand, they are extracting at least $30 billion out of our domestic economy in terms of the trade deficit, and on the other hand, we very generously are providing the lion's share of the defense spending for their defense, as well as for our own, that after a while, that leads to a kind of national impoverishment in terms of just our own financial circumstances; and I would cite just two measures of that.

One is we have enormous Federal deficits now that are running in the range of $200 billion and cause a great concern and feeling that that has helped drive up interest rates and cause other problems. So we have that problem, and then we also have recent scares, like the Continental Illinois Bank, which you are both familiar with, where there has been a massive intervention. And part of the theory of the intervention is that it posed a real threat to the possible stability of the world financial structure.

When you start connecting all of these things, there are many people, particularly in the financial markets, who you have mentioned they think that the United States is trying to operate at the very outer limit, or even perhaps beyond the prudent limits, of our financial capacity, with all of the things taken together, and that the trade deficit just is one component of that overall puzzle.

But my question to you is: Can we continue indefinitely having that kind of a relationship, say with Japan, as a major industrial nation, where we run a continuous, long-term trade deficit, and, on the other hand, find ourselves also picking up other expenses of theirs or at least that are partly theirs, when we have run out of money ourselves?

Mr. McNAMAR. Senator, let me first offer a slight correction on the deficit numbers you used. We are not running at a $200 billion level. In fact, the official estimate is, I believe, $177 billion.

There is a substantial body of public opinion, including estimates this morning, that it will be closer to $150 or $155 billion. Many people are predicting in the $160, $165 billion range. So, we are coming down in our deficit estimates. I will ask Ken to handle the question on Japan and its defense spending; but I think he is very familiar with Prime Minister Nakosone's commitments in that area.

Senator RIEGLE. I might just say on the deficits thing I do not want to get a debate on that here. If they are going to be lower than what has been said, that is all to the good.

The budget package that just passed the Senate a week ago projects out your deficit above $200 billion, but, of course, I hope you are right. What I am saying is, whether it is $175 or it is $200 billion, we are certainly not at a balanced budget. We have got a major financial problem on our hands.

Mr. DAM. The question—I think the overall question you are asking is would this legislation hurt us.

Senator RIEGLE. I will get to that, but what I would like to do first is try to get a sense from you as to whether we are in a vulnerable economic condition here, which this may or may not be the right remedy for. I think that is an open question that can be debated. But what I think would be useful for us to establish is what is the nature of the economic condition in which we now find ourselves.

Mr. DAM. Well, on that question, I would defer to Mr. McNamar as the economic assessment expert. I can only say from the standpoint of our relations with other countries, they seem to think that we are in the strongest economic position of any country. We have this very strong recovery. We obviously have a very large GNP. Our high technology industries are doing extremely well. So I think it would be very difficult to convince most foreign finance ministers that the United States had a weak economy.

Senator RIEGLE. But then I guess the question is can we maintain these economic trend lines indefinitely the way they are now without endangering ourselves?

Mr. DAM. We certainly are pursuing policies on the question of say defense spending, which you have raised. We have been encouraging the Europeans to strengthen their spending in conventional areas. With regard to the Japanese we are, of course, coming out of the period in which as a result of World War II we took responsibility for their defense. We have been working on them or working with them. We have been working on them, but we have been working cooperatively with them to see what is the best approach to that.

And essentially what the approach has been is to define with the Japanese certain roles and missions the Japanese could carry out. And we have focused on the Japanese assumption of responsibility for the defense of their own ceilings and airlanes out to 1,000 nautical miles, and they are working hard on that.

They are putting into their budget increases for defense in percentage terms which are similar to the ones that are in fact coming out of the Congress. So the problem is they start from this low base for historical reasons, and I think that it is impressive. It is also impressive what they are doing in the foreign aid area where in country after country as you go around the world, they are doing much more in foreign assistance than we are.

Now this is impressive when you realize that unlike the situation in the United States, spending in many domestic programs is not increasing. They have been much more strenuous than we have on many domestic programs. So, yes, there is a symmetry there. But we are working on it, and I think we are getting somewhere.

Senator **RIEGLE**. My time is up. I hope to come back to this, because I think we need to finish this discussion.

Senator **DANFORTH**. Senator Ford.

Senator **FORD**. Secretary McNamar, is it not true that Japan keeps out all foreign investments?

Mr. **McNAMAR**. No; it is not true that Japan keeps out all foreign investment.

Senator **FORD**. Well, that is total. But basically they do, do they not?

Mr. **McNAMAR**. No; they have not kept out all foreign investment. They have in those industries—I think pharmaceutical and cars, cosmetics are a couple of areas where they have had joint ventures. I think there is some, I do not know, between 15 and 20 insurance companies operating in the very lucrative Japanese insurance market now. It is not as free and as open as we think it should be for the benefit of both the Japanese and the rest of the world economy. But what we are seeing there is an opening in that economy.

And the draft agreement on Japanese capital markets that was initialed but not finally approved in Rome yesterday will, in the financial area, move to increase the openness of the Japanese markets over the next 5 years on the financial side.

I cannot personally speak to the industrial side. I am just not as familiar with it. I am sorry.

Senator **FORD**. You mentioned Rome, that significant meeting. What was Secretary Regan's main mission at the meeting in Rome?

Mr. **McNAMAR**. It was a followup to the process that was begun last November when I accompanied the President to Japan. And we have had a number of meetings, almost interminable it seems, in various places around the world, generally tied to other meetings, IMF meetings or OECD or whatever. And the agreements that we have reached verbally were simply reduced to the final report in writing. That will be submitted to Minister Takeshita and Secretary Regan, and they will review it and decide if it is acceptable or not acceptable.

Senator FORD. All of that background I think we are familiar with. I would just like to get to an answer. But I think Secretary Regan's main mission there was to have the Japanese use the yen more, to have it more available. And therefore, that devalues the yen.

Mr. DAM. Senator, I wonder if I could address the question you raised in this context. I am informed that the volume, the total volume of Japanese investment in the United States is about the same as our total volume of our investment in Japan on a balance sheet basis. I will get that information for you.

[The following information was subsequently received for the record:]

According to the August 1983, Survey of Current Business, published by the United States Commerce Department, Japanese direct investment in the United States at the end of 1982 was about $8.74 billion. American direct investment in Japan stood at approximately $6.87 billion.

Senator FORD. But our sales are $30 billion short.

Mr. DAM. Now, that is different. You were asking about investment.

Senator FORD. That is what we are talking about here. You can respond to my question in any way you want to. I will be glad to listen to it. And I hope I will have a little more time, Mr. Chairman.

[The following information was subsequently received for the record:]

A comparison of 1983 average wage rates for production workers in the automotive industries of the United States, Japan, and the major European auto-producing countries follows. It was provided by the Bureau of Labor Statistics of the U.S. Labor Department and is based on averages of daily exchange rates in 1983.

Senator FORD. Go ahead. I am ready for you to answer it.

Mr. DAM. I was just answering your question on investment. I am sorry. I am not trying to enter into a disagreement with you.

Senator FORD. I do not want to have a disagreement. You said something about the cost of autoworkers earlier.

Mr. DAM. Yes.

Senator FORD. Well, what is the premium in Europe and what is the premium in Japan for autoworkers?

Mr. DAM. Well, I really do not know, but I can tell you what it is in the United States. It is about $23.50 per hour as opposed to $13 per hour in industry generally.

Senator FORD. What is the premium in Europe and what is the premium for autoworkers in Japan?

Mr. DAM. I would be glad to obtain that.

[The following information was subsequently received for the record:]

| Country | Automotive wage (A) | Industrial wage (B) | A/B percent |
|---|---|---|---|
| United States | $19.07 | $12.26 | 155.0 |
| Japan | 7.79 | 6.20 | 126.0 |
| Belgium | 10.77 | 9.20 | 117.0 |
| France | 8.98 | 7.66 | 117.0 |
| Federal Republic of Germany | 13.29 | 10.41 | 127.0 |
| Italy | 8.02 | 7.59 | 106.0 |
| Spain | [1] 5.85 | 4.75 | 123.0 |
| Sweden | 9.27 | 8.97 | 103.0 |
| United Kingdom | 7.33 | 6.48 | 113.0 |
| Netherlands | 9.56 | 9.52 | 100.4 |

[1] Figures for Spain are for all transportation sector employees; no breakdown is available for automotive sector only.

Senator **Ford**. It is about 125 percent, Mr. Secretary, and that is not too far off from the difference here, as we had testified before this committee last week. And so the premium in both countries are in both areas.

You talked about European cars not coming over here. Not many of us can buy a $45,000 coupe, so you do not sell too many of those kind of cars.

Mr. **McNamar**. Let me complete that answer if I may, Senator, because I think you have raised a very good point, and that is the relative cost comparisons between countries. And obviously, the rate that a worker makes, his regular wage rate or her regular wage rate, benefits and so on, are important. But the other component of that equation, the other variable is how many hours of labor it takes at a given cost to produce a car. And I think it is interesting that the estimates in the United States to produce a compact car, for example, would suggest that it takes somewhere around 145 hours versus 84 hours in Japan, and that that would give the Japanese, just on an hourly basis, somewhere around a 61-hour advantage. On a cost basis that would probably be something in the neighborhood of $1,875 per car when you take the number of hours times the rate differential.

Senator **Ford**. Give me the additional perks that the Japanese workers receive that the American worker does not in the value of that.

Mr. **McNamar**. Well, that does not change the number of hours.

Senator **Ford**. I understand that, but there are perks that are not included in your estimate. You are talking about the dollar per hour. Now, let us talk about the perks the Japanese workers get.

Mr. **McNamar**. I cannot say necessarily that I do not have a fully costed wage rate. I would be glad to amplify on that answer for the record and make sure that fringe benefits that workers in the United States and fringe benefits or the perks that workers in Japan have are included.

Senator **Ford**. Well, be sure and add Government health care in that.

Mr. Chairman, I would like to ask one more question.

Senator **Danforth**. Of course.

Senator **Ford**. We have all heard about retaliation. On the Senate floor yesterday I listened to two of our colleagues, one from Arkansas and the other one from Maine, and Maine talks about the problems with potatoes across the border in Canada. They talked about shoes and the quota Canada has on shoes. And we hear about all of these, that there is open—and you just said a moment ago, we have open trade with Canada, but really we do not, because there is a book that thick that shows Canadian subsidies and quotas placed on this country.

And you say they retaliated as to steel. I had the Canadian embassy people in yesterday, and they were not too much worried about that. They were worried about steel quotas that possibly are up.

But how are they going to retaliate? I mean you sell a dozen pairs of shoes in Panama. I mean just begin to tell me all of these countries that would retaliate against the major purchaser in the world. How are they going to retaliate? What is it that they have that we cannot buy from them?

Mr. McNamar. Well, for example, one thing they could do—take a country like Mexico which has been a primary importer of U.S. farm products, particularly corn and wheat, over the last decade and has gotten to be, I believe, our second largest market. They could easily buy their wheat, for example, from Argentina.

Senator Ford. Would they still borrow the money from us to buy it from Argentina?

Mr. McNamar. They are not borrowing the money from the U.S. Government to do that.

Senator Ford. How much do they owe us now?

Mr. McNamar. I do not know the official debt of Mexico to the U.S. Government. I can provide that.

Senator Ford. But, you see, what you say, they are going to retaliate with what? We will not loan them any more money to buy anything with.

Mr. McNamar. Well, I do not want to see our farmers hurt to try to advantage—and I do not believe it would—some other sector.

Senator Ford. You just bailed out Argentina.

Mr. McNamar. No, sir.

Senator Ford. Who just bailed out Argentina? Did they not just have a recent financial crisis in Argentina?

Mr. McNamar. No. Argentina did not have a financial crisis, and there was not a bailout of Argentina. I am quarreling with your use of the word "bailout," Senator.

Senator Ford. Did I use the word "bailout?" OK.

Mr. McNamar. I thought you did.

Senator Ford. Well, it is very descriptive anyhow.

Mr. McNamar. It may have that connotation, but I think the denotation is somewhat different when you get into the details in that there was a package for Argentina put together by a number of governments. The United States supported but has no money in that package. No money is in there.

Senator Ford. Every country that was in the package owes us a lot of money. We were in it, and we were the point on it, and we saw that it was taken care of without putting any more money in it. But every country that made the arrangement owes us plenty, and we have loaned them plenty. And I think if you go back and look, you could find where the money to make up that package came from this country to those countries without going directly to Argentina.

Mr. McNamar. Actually, a lot of it came from Japan.

Senator **Ford**. So now they are using our money to bail out Argentina.

Mr. **McNamar**. No. The Japanese, in fact, have been a net capital exporter to the United States for some time, because they do not have the investment opportunities at home that we do. And so there has been a substantial amount of capital coming from Japan here. That comes via deposits in Japanese banks, for example, that in turn purchase CD's in banks in your hometown; and that money is available and relent in the Federal funds market or whatever.

Senator **Riegle**. Would the Senator yield on that point?

Senator **Ford**. I have not got an answer on retaliation yet.

Senator **Riegle** I think it is very important, though, to note the difference between a dollar that flows out in the trade deficit and is lost from our economy versus a dollar that the Japanese lend back to us and where we have the use of that money for as long as they are willing to keep it here, of course at an interest cost. But then eventually that money goes back to them, presumably. It is their money.

And so sometimes there is a tendency to comingle these two transactions—the net outflow of dollars in a trade deficit and a capital inflow—because somebody who is getting a lot of money because they are on the fat side of the trade equation lends the money back to us. And so when you put this into an accounting form, the one can be shown under summaries to offset the others, but they are quite different transactions, I think you would admit. And I think it is important to establish that for the record.

Mr. **McNamar**. They are different transactions. One in fact may foster the other, of course, and they need to be looked at over time, like a motion picture as opposed to a snapshot basis. And I know you recognize that.

Senator **Riegle**. I have one other question, Mr. Chairman, whenever the appropriate time is to raise it.

Senator **Danforth**. Please do.

Senator **Riegle**. We are running at roughly a $120 billion annual trade deficit level now, and that really is an extraordinary level, and we have not been to this level before. And I must tell you frankly that I am very concerned about it. I am concerned about whether we can tolerate that level if it were to stay there. And I am even more concerned about what the impact would be if it were to go even higher, which potentially it could.

And what I would like to have you try to give me a sense for, Mr. Dam and Mr. McNamar, is when it reaches that size, when it has burgeoned to the size of $120 billion annually, what are the dangers or the damages that that imposes upon the American economy? And if it is not damaging at that level, at what level would it have to rise to before you finally felt, in your opinion, as people looking at the overall strength of our economy that it really was a dangerous development or a damaging development, something that was hurting us in terms of our long-term prospects?

Mr. **Dam**. I think it is an unprecedented level of trade deficit, and obviously it has an impact in many different ways. It is the opposite side of the coin from capital inflow. The balance of payments has to balance. I think the question, though, has to be looked at in the light of so what?

It does not follow that if one were to eliminate all imports of automobiles, zero, bang, that it would substantially change the trade deficit because it would change the exchange rate, and it would probably hurt a lot, even if there were no retaliation, it would hurt a lot of exporters, and it would result in imports coming in in other areas, because of the impact on the exchange rate.

The fact of the matter is, it is a very complicated thing, and it does not follow that the way to deal with the trade deficit is to reduce imports, especially if it weakens the U.S. economy.

Senator RIEGLE. But my question is a little bit different from that. We can get to automobiles or any other components. The question is on the aggregate, the impact from an aggregate level of $120 billion over a 12-month period, having grown to that size, which is unprecedented. If it stays at that size, if we continue to run that size trade deficit, it seems to me from what I can see that it starts to do some serious damage to our country.

We lose jobs, for one thing. We lose national wealth which goes to other nations, which, yes, in the case of Japan they may be able to lend back to us, but they are lending it to us, and we pay interest for that money, and it seems to me that when it gets to that level, or you tell me where the level is. If it is not $120 billion, if that does not become an alarming and damaging level, what would be the level on an ongoing basis that you would see as damaging to the country?

Mr. DAM. I do not want to get into a question of not $120, what about $220, and if not $220, how about $320 billion? The point is, I do not think you can answer that question without looking at it industry by industry, because in principle, since a lot of the flow into the United States is for investment, that is, the offset of the trade deficit, it is not clear that the trade deficit in and of itself weakens the U.S. economy, and I think that that—I think the main problem is that it leads to a lot of pressures for protection, and other kinds of problems, but I do not see it as a pure matter of economics necessarily apart from its impact on particular industries and particular Americans harming the U.S. economy as a whole.

Senator RIEGLE. Now, this is important. I mean, we have finally gotten somewhere here.

Mr. DAM. This is something upon which economists disagree. I do not think we have a real answer to that. All I am saying is it is not demonstrated that this level of deficits is doing harm to the overall U.S. economy.

Senator RIEGLE. I want to come back to get your response, but I want to make sure I understand what you are saying. You are saying then that in your professional judgment as you size this up in terms of the aggregate size of that $120 billion trade deficit, that it is not in the aggregate damaging to the U.S. economy?

Mr. DAM. I have not seen any demonstration that it is, and I will keep an open mind on it. I am not saying that it is a desirable thing.

Senator RIEGLE. Now, I have come to a different conclusion, and it is a new development, and so we are all trying to sort of fathom something that we have not seen before in this dimension.

Mr. **Dam**. A lot of it depends upon what the offsetting transactions are.

Senator **Riegle**. The transactions are different in kind if you are talking about a credit transaction or even an equity transaction.

Mr. **Dam**. I mean to the extent there is foreign investment in Silicon Valley and that kind of thing, maybe that is good.

Senator **Riegle**. I think that is a useful thing for us to debate, but for the moment it is your representation to the committee that a $120 billion trade deficit is not in and of itself damaging to the country. I think it is, and I think if we had more time I could indicate why I feel that way, but what I am interested in now is how you see it, and you have been quite frank about it, so Mr. McNamar, what would be your view on that?

Mr. **McNamar**. Senator, I think you are quite right that we are looking at a new phenomena here. Let me suggest a couple of contexts in which we might look at it. First of all, I think that the numbers that I have seen, the official forecasts are probably $100 billion as opposed to $120 billion. I would probably sit somewhere in the middle and say it would be around $110 billion or so.

I think you have to look at that as a percentage of GNP. For example, on a $3 trillion economy, that is about the same as a 50 is on a $1.5 trillion economy. I think it might be useful for the committee to have some background that was prepared by the Treasury staff on this very question for some of the testimony I gave in the Senate, and I would like permission to submit that for the record [1] if the Chairman would agree.

I think it is an excellent analysis by the Treasury staff, and it suggests that if you look at the factors that contribute to the widening trade deficit that we have had over the last 3 years, one of the first is the fact that we have had a much stronger earlier recovery in the United States than the rest of the world has from the recession. They have had a slower and weaker recovery abroad. This accounts in our judgment for probably $20 some odd billion of debt, current trade deficit.

The second factor, and Senator Ford, I think, alluded to it, is the LDC debt problem, and we would estimate that the loss of U.S. exports to those markets in the period between 1981 and 1983, that probably today that accounts for something in the neighborhood of $25 billion of the $100 or $110 or $120 billion trade deficit, and clearly the strong dollar relative to what we had in the period in the late seventies also accounts for a piece of that, and here my numbers are the weakest, Senator, and I want to give you a range and suggest that the range is from $25 billion to $100 billion.

Now, that is an unfair thing for me to do to you, because it is so wide, but quite frankly, as I indicated to Senator Ford, the more I look at those numbers, the more agnostic I get about people's expectations on exchange rates.

One last point. In that context, I think it is useful to note that in 1981 to 1983 the trade shift with Japan was only negative by $4 billion, but in fact what we are looking at here is the trade balance at a point in time when again, as I think you pointed out a while ago, it is useful to look at that over time in context, but I think that if you continue to run this kind of a trade balance for some infinite period of time, a decade, and I do not know whether it is shorter or longer than that, yes, I think you could have major distortions in the U.S. economy.

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[1] See Senate Finance Committee hearing, Mar. 23, 1984, Growing Trade Deficit.

Do we have distortions today? No. Are we better off or worse off for having it? I submit that we are better off for having it at this point in time, because the rest of the world is reviving. They are beginning to buy our exports, and quite frankly, it has helped hold down inflation in the United States, and that is a benefit to 230 million people.

Senator RIEGLE. I must say I admire your willingness to defend as a good thing the size of the trade deficit, which you sort of just did at the end, in the sense that it is sort of reinflating the world economy, if you will. We had testimony here at our last hearing that there is roughly 25,000 jobs connected to each $1 billion of net trade deficit. So that if we are running at a rate of $120 billion or, say, $110 billion, and it was $120 billion based upon the first 3 months, we are talking about an awful lot of jobs.

Mr. DAM. I would really like to comment on that, because there is a major area for analysis. One of the reasons we are running a trade deficit is because of the very strong expansion in the United States that has led and has induced a tremendous volume of imports into the United States partly to support those industries that are expanding, so if you were to stop those imports, you would stop the growth of the American economy. So it is not true that for a large portion of the deficit it costs anybody jobs. It is a result of the creation of jobs in the United States.

Now, Europe has not generated more than about a million or 2 million new jobs in the last 10 years. They do not have a trade deficit. We have generated 15 million new jobs in the United States in the last 10 years, many of them or a very large percentage of them in the last year or year and a half. So I think it is important to separate cause and effect here. You cannot just multiply the trade deficit times some figure.

Senator RIEGLE. I think that is a useful point, and what we are really trying to do is to extrapolate forward. We are trying to say that we are now at an unprecedented level, can we continue this. Frankly events like the Continental Illinois situation cause an awful lot of people to take a deep breath.

You mentioned earlier the importance of the financial markets and how they assess things, and I agree with that. I think the financial markets are an extraordinarily well refined system for trying to assess what circumstances really are. I do not know if you have looked at the price-earnings ratios of the American automobile companies recently, but Chrysler today is selling at two times earnings, Ford at three times earnings, and GM at four times earnings.

I do not know of a time in contemporary history when the industry has been at such a high sales level, which you cited earlier, such a high level of profitability, and at the same time, and the market is not crashed by any means, most of the other stocks like Kellogg and other stocks that are quite solid and traditional companies are showing multipliers in the range of 9 and 10 times rather than the 2 to 4 times in the auto industry.

Some say, well, the upcoming auto talks and so forth, but this difference is so dramatic that for financial people to look at it, financial market people, economists like yourself, those of us who have some background in this area, this is an extraordinary situation, and obviously the financial markets looking at the future for these domestic auto makers are deciding that they do not see that kind of rosy future that is sort of implied in the earlier comments.

And as a matter of fact, they are not willing to capitalize today's earnings except to a very, very minor degree in terms of what normally one would anticipate at this time, and to me that says something, and in other words I am saying, what are the financial markets worldwide, domestic, seeing here that causes them to have this incredible degree of apprehension as reflected by the market prices in the face of the record sales, in the face of the record profits.

And I do not know that we can provide the answer here, but I am posing it to you to think about as I am trying to think about it, too, because I think it is a terrific warning signal, and you can say the markets are wrong, and I hope they are wrong. I hope these are all bargains, and we are going to see a terrific future here, but that is not the way the sophisticated money is betting.

They are betting exactly the other way, and in a sense they are betting against your analysis, and so I think it would be helpful to try to understand what is behind that body of opinion, which I think is a pretty respectable and solid body of opinion.

Mr. **McNamar**. Well, I think you are quite right. There are a myriad number of factors that determine the stock price. Obviously, interest rates do have an impact. Obviously, the general market decline has had an impact on the price-earnings ratio, given a certain anticipated level of earnings, and I think you quite properly point out the enormous apprehension in the markets over the anticipated automobile strike this fall, and I think that is the conventional wisdom in the markets.

It may be right. It may be wrong. And I think that that certainly causes a fairly heavy discount premium to be placed on anticipated earnings for the remainder of 1984 and 1985 in the automobile companies until they might recover from that. It obviously might reflect an anticipation that automobile industry profits would be substantially less after a wage settlement that might be coming up.

I think it undoubtedly reflects some concern over what is going to happen on the mileage standards. I think it reflects a concern to some degree over what kind of cars are people going to be buying and how well is Detroit positioned, for example. I think Chrysler has done an admirable job in repositioning itself in the small end of the market. On the other hand, if it appears——

Senator **Riegle**. With some help from yourself, I might say.

Mr. **McNamar**. No help from the Treasury, sir. That was a job that Chrysler management and Chrysler unions and the banks did, and they ought to get the credit for it, and I think had the Treasury not been involved they would have done just as good or a better job without us.

The question, I think, is what kind of cars do they have at the high end of the scale? If you have the anticipated decline in oil prices and the anticipated decline in gasoline prices that the publications are suggesting may occur, will that disadvantage Chrysler?

What is their new product introduction? An enormous number of those factors.

Senator **Riegle**. Let me add one to your list that you have not put there, and that is, if the voluntary restraints come off next spring, and Japan decides to ship in another million cars, which they easily can do, and were to drive their market share up from, say, 21 percent to 40 percent, you are going to find probably one of these companies not being able to survive, and maybe more than that, if Japan decides to take full advantage of "an open market" in this country. I would urge you to put that on your list.

Mr. **McNamar**. You are quite right.

Senator **Riegle**. I think it is on the list of the financial markets as they are sizing this thing up here.

Mr. **McNamar**. You are quite right. It is on the list. I had not gotten to it yet.

Senator **Riegle**. Well, I do not want to trespass further on the time of the committee, but I think that the nature of the discussion that we are now into is really the critical issue here. Whether domestic content is the answer or not is a debatable proposition, and there are differences of opinion.

It may be that quotas are a better approach. That is what many other nations in the world are using.

But the question of the magnitude of our difficulty is a separate question, and I think we are in very considerable economic difficulty right now, and I think if we can pin that down and understand the dimensions of this unprecedented set of developments, then at least we are in a position to have an intelligent debate as to what responses may make sense. I am quite prepared on that basis to have people either argue for or against domestic content, but if we have got a major problem that is not solving itself, then we had better face that in the beginning, and then start looking at what the different options are.

Senator **Danforth**. Gentlemen, all good things must come to an end. Thank you very much for your patience and your testimony.

Next we have Congressman Bob Wise.

Congressman, thank you very much for being with us, and thank you for your patience in waiting to testify.

## STATEMENT OF HON. BOB WISE, U.S. REPRESENTATIVE FROM WEST VIRGINIA

Mr. **Wise**. Thank you very much, Mr. Chairman. I appreciate the chance to be here.

What I would like to do is submit my whole statement, and then summarize it.

I am Bob Wise. I have the privilege of representing the Third Congressional District of West Virginia in the House. I appreciate being invited to appear before you.

In summarizing, I guess I would have to say, based upon what I have heard during the last 45 minutes, I have a hard time taking that back to the coal mining communities of Boone County, for instance, in my district, and making it relate.

I come from a State that now has unemployment of 16 percent, heavily basic manufacturing, coal mines, steel mills, manufacturing facilities greatly affected. I would like to take some issues on, because I know you have heard some of these arguments, but as I say, I would like to bring a little bit of a West Virginia perspective.

First of all, some say the automobile issue is dead, there is no longer a need for this protection, for domestic content legislation. Well, I think we have just been hearing that there are many facets to the automobile industry, and during the last few years, for instance, at the same time that profits have gone up and bonuses have gone up some, automobile companies have slimmed their production worker jobs by 23 percent.

One issue I would like to take on is the statement, and it is not a fact, that voluntary restraint by the Japanese has caused automobile prices to rise sharply since the Japanese agreed to import restraints 3 years ago. That has been a pervading statement made particularly in the last few weeks, but these restraints have not cost the car-buying public $5 million more than it would have paid without them. That is the statement that has been made.

Since the restraints took effect in April, 1981, the new car part of the Consumer Price Index has risen about 4 percent per year—less than a half point less than CPI. These are Department of Labor statistics, incidentally, and not those provided by a Japanese-funded study.

Another claim—that the rate of car price increase has accelerated since restraints began—once again, a hoax. In the 4 years before restraints, April, 1977, to March, 1981, the average price increase for new automobiles was about 7 percent. After the restraint period began, the average annual price increase for new cars was about 4 percent.

It is wrong therefore to contend, as some have done, that restraints have driven up the price of cars by $500 a unit or by $5 billion in total. Yes, it is true that customers do pay more for automobiles today than they did 5 years ago. They pay more for a lot of things today than they did 5 years ago. But this has nothing to do with the restraints, and has nothing to do with the imposition of a domestic content law for the same reason.

There is another issue that I heard discussed a lot today, and that is what I consider the myth that enacting domestic content legislation will cause other countries to retaliate against U.S. goods. The U.S. trade deficit, as was pointed out, is something like $120 billion this year, $30 billion of that to Japan alone. What country is going to risk that lucrative market?

Furthermore, I want to ask, how can they retaliate any more against West Virginia? Three years ago Japan bought 33 percent of all of its coal from the United States. West Virginia exports half of its coal overseas. Today that figure is 16 percent and dropping. Who has gotten the lion's share of that? Australia. Who has a domestic content law? Australia.

I suggest that there is no quid pro quo there. Then I look, for instance at Canada and how Canada would retaliate against us. I believe the Senator from Kentucky addressed that well, but I would just like to point out, and I know I do not need to point this out to members of this panel; Canada, for instance, in something that we in West Virginia look upon with a little bit of apprehension, since we have large natural gas reserves, Canada is seeking to sell much more natural gas in this country. It is seeking to sell much more Canadian-generated electric power in this country.

I heard something about only the lesser developed nations having domestic content law or some sort of quota or tariff protection. I suspect that we might have a diplomatic incident about to develop when England, France, Italy, Japan, Australia, other nations find themselves termed as LDC's.

I heard, for instance, that Mexico might retaliate. First of all, I do not believe this law would apply to Mexico. I understand the problem that some of the farmers might have concerning selling agricultural goods, but it is also my recollection that Mexico depends heavily on selling oil to the United States, and indeed much of their economy is based on that.

My colleague who testified earlier, Mr. Gibbons from Florida, makes a very good case for his point of view. I think he may see it from—he wears a different set of shoes than I do on it, but I noted, for instance, that in the case of citrus and oranges, that 40 percent of all imported juice sold in Japan must first be blended with 40 percent Satsuma juice, which is Japanese, and in fact citrus has its own domestic content legislation in Japan.

I was interested to hear about investment opportunities, how, yes, it is possible for American companies to invest in Japan. Cosmetics, I believe, were one of the areas cited. So we buy Toyotas and they let us participate in lip rouge. And you can just go down the list, and it simply makes no sense.

Too often U.S. sellers face anti-GATT, anti-free market, anti-fair trade practices that free trade advocates so abhor. We as supporters of S. 707 are asking for an equal chance to compete, not tariffs, not quotas, not Smoot-Hawley, just simply an equal chance to compete, sell here and build here, and I would like to cite an example, Mr. Chairman, if I might, from my own district.

In Charleston, South Charleston, actually, we have a Volkswagen plant. Volkswagen of America has a stamping plant in my district. It started years ago to put some of their manufacturing facilities in America. Volkswagen sold in the neighborhood of 251,000 cars in the United States last year. Under the strictest ratios proposed in the Senate bill, that is, those that would take effect in 1987, Volkswagen already would more than qualify for its assigned domestic content ratio.

VW has about 70 percent domestic content in its Rabbit line made in America today, and 40 percent content after its imports are averaged in. If other foreign companies would sell cars here and follow Volkswagen's lead, we would not be here now talking about forcing them to.

One final anecdote, Mr. Chairman. I have attended two meetings now, one with administration officials, concerning coal sales to Japan, another with Department of Commerce officials concerning negotiations with Japan. Both of them talked about, and the Secretary himself used the words "interminable meetings," meetings that go on and on and on with no result.

When I asked, well, what is it you propose we do, they said, well, no tariffs, no quotas, no domestic content. I said, then what is it we can do to better the situation? They said, well, maybe if you just threatened something but wink at them.

Well, we have been winking and winking and winking, and while we have been winking, I think a substantial part of our industrial capacity has been slipping on by.

Mr. Chairman and members of the committee, I urge you to take action now. I appreciate the chance to address this, and as I say, we believe very much in free trade in West Virginia, and we would sure like a little fair trade, too.

Thank you very much.

Senator **Danforth**. Thank you, Congressman.

Senator Ford?

Senator **Ford**. I do not believe I have any questions of the Congressman. I appreciate his statement today.

Senator **Danforth**. Congressman, thank you very much for being with us.

Mr. **Wise**. Thank you very much.

Senator **Danforth**. Thank you for your patience in waiting.

[The statement follows:]

### Statement of Hon. Bob Wise, U.S. Representative From West Virginia

Mr. Chairman, members of the committee, I am Bob Wise and I have the pleasure of representing the 3d Congressional District of West Virginia in the House. I appreciate being invited to appear before you today to testify on S. 707. As you know, I am a cosponsor of the companion legislation passed by the House last year—H.R. 1234.

Mr. Chairman, our legislation will clearly have a great impact on our domestic auto and auto-related industries. It addresses the continuing dangerous industrial crisis facing our Nation, and deserves your committee's full attention and support.

I have listened to the remarks of my colleague who spoke earlier, Mr. Gibbons of Florida, and he states his position well. In my State, West Virginia, I dare say that the recession has been felt much more dramatically than in his. This fact, no doubt, accounts for some of the way we each feel. The unemployment rate in my State is now 16 percent. Our heavy industries have been worst hit, the coal mines, steel mills and manufacturing facilities in West Virginia have suffered greatly. There is no relief in sight for many of the families concerned with employment in these industries. The future is still bleak, indeed. But you know the situation.

As you know, the United States and its trading partners have been engaged for a long time now in an effort to negotiate new rules for commerce and trade. While negotiations go on, a debate is raging in this country about our trade policy, and about our future relations with our trading partners.

Some say that the automobile issue is dead, and there is no longer a need for domestic content legislation. The news about higher auto sales, profits, and executive bonuses leads them to believe that the industry is doing just fine. Well, as you and I know, there are many facets to the auto industry. And not all of them are doing "just fine." For instance, during the last few years, and at the same time these bonuses and profits were going up, auto companies slimmed their production worker jobs by 23 percent.

One issue I want to take on in this testimony is the myth that voluntary restraint by the Japanese has caused automobile prices to rise sharply since the Japanese agreed to impose restraints 3 years ago. These restraints have not cost the car-buying public $5 billion more than it would have paid without them. Since the restraints took effect in April 1981, the new-car part of the consumer price index has risen about 4 percent per year—which is half a point below the CPI increase of 4.5 percent for all items. These are U.S. Department of Labor statistics—not some numbers gleaned from an obscure Japanese industry-funded publicity campaign.

Another claim—that the rate of car price increase has accelerated since restraints began. This, again, is a hoax. In the 4 years before restraints (April 1977–March 1981) the average annual price increase for new cars was about 7 percent. After restraints (April 1981–March 1984) the average annual price increase for new cars was about 4 percent.

It is wrong, therefore, to contend, as some ill-informed individuals have done, that restraints have driven up the price of cars by $500 a unit or by $5 billion in total. Yes, it is true that customers are paying more for cars today. But this has nothing to do with these restraints, and it would have nothing to do with the imposition of a domestic content law for the same reason.

Let's address another myth—that enacting domestic content legislation will cause other countries to retaliate against U.S. goods. The U.S. trade deficit will exceed $100 billion this year. What country is going to risk losing such a lucrative market? In West Virginia, we can't get hurt much more. In 1981 the Japanese purchased ⅓ of their coal from the U.S. Today, that figure is 16 percent, and the Japanese are buying increasing amounts of coal from Australia—a country with an automobile domestic content law already on the books.

Our competitors know a good thing when they see It. The American market remains remarkably open to goods from around the world, granting our people the benefits of competition. Our county is the only one in the world that does so to such an extent. Every competitor we have protects its basic industries at home and promotes them abroad. Import quotas abound. Prohibitive tariffs are the rule, not the exception. And nontariff barriers are in many respects the most subtle and most damaging policies our companies face.

In markets in which we are permitted to compete, our European and Janpanese neighbors show up at the market armed to the teeth with government subsidies and financing.

Too often U.S. sellers face anti-gatt, anti-free market, anti-fair trade practicies that free trade advocates so abhor. The bottom line is that what we in this country consider as "trade barriers," are the essence of other nation's economic development strategies.

What we, as supporters of S. 707 are asking for is an equal chance to compete. Your have heard much about what the mechanics of the legislation are, so I won't bore you with a repetition. Let me just say that, far from being a quota, this bill is a fresh alternative to restricting the numbers of cars a company can sell in our market. "Sell here, build here" is not just a rallying cry—it is a fair deal. It sounds equitable to me. It sounds workable to me. It is a different way of doing business for us, to be sure. But, as I said earlier, times do change.

As a good example, let me cite the case of Volkswagen. Volkswagen of America has a stamping plant in my district. Volkswagen started years ago to put some of their manufacturing facilities in America. Volkswagen sold in the neighborhood of 251,000 cars in the U.S. last year. Under the strictest ratios S. 707 proposes (that is, those that would take effect in 1987) Volkswagen already would more than qualify for its assigned domestic content ratio. VW has about 70 percent domestic content in its "rabbit" line made in America today, and 40 percent after its imports are averaged in. If only all of the foreign companies that sell cars here would follow Volkswagen's lead, we would not be here right now taking about forcing them to. To those who doubt what a domestic content law would do to spur such action, they have only to look at the recent actions and announcements of Nissan, Toyota/GM and Honda. The threat of such a law along is spurring just the sort of activity we have hoped for.

The United States cannot continue to play the patsy in light of the practicies of our other trading partners. While the opponents of our legislation fiddle, our industy and its workers burn.

Mr. Chairman, members of the committee, I urge you to take action now—report S. 707 to the floor—before it is too late.

Senator DANFORTH. Next we have a panel consisting of Ms. Marina Whitman of General Motors, Mr. Kenneth Whipple, Ford Motor Co., Robert Perkins, Chrysler Corp., and Marvin Stucky, American Motors.

Ms. Whitman?

## STATEMENTS OF MARINA v.N. WHITMAN, VICE PRESIDENT AND CHIEF ECONOMIST, GENERAL MOTORS CORP.; KENNETH WHIPPLE, VICE PRESIDENT, CORPORATE STRATEGY AND ANALYSIS, FORD MOTOR CO.; ROBERT A. PERKINS, VICE PRESIDENT, CHRYSLER CORP.; AND MARVIN STUCKY, VICE PRESIDENT, CIVIC AND GOVERNMENTAL AFFAIRS, AMERICAN MOTORS CO.

Ms. WHITMAN. Thank you, Mr. Chairman.

I am delighted to appear before this committee to discuss the proposed legislation requiring specific levels of domestic content in automobiles sold in this country.

General Motors has frequently expressed its belief that manufacturers should provide jobs, pay taxes, and support the economies of the countries in which they sell. We have for many decades based our operations throughout the world on the belief that this practice makes good sense.

Although we have long supported this practice, we do not believe that legislation is the way to bring it about. We are sympathetic to the objectives of the domestic content legislation, that is, to strengthen the U.S. auto industry and increase the number of U.S. jobs. But we do not believe that these objectives can be achieved through legislation—which is often inflexible and unpredictable in its results. In addition, such measures threaten to disrupt the world trading system and invite retaliation.

This does not mean, of course, that there is no role for Government in stimulating and maintaining industrial health. Providing an environment conducive to sustained noninflationary economic growth is of crucial importance. The size of the Federal budget deficit and the resulting mix of monetary and fiscal policy have become a threat to such economic growth and are already distorting the international value of the dollar to the disadvantage of the auto industry and others who must compete against foreign producers either abroad or at home. In addition, the Government should continue its efforts to encourage the internationalization of the yen and better access for U.S. goods to markets in other countries, including Japan. Finally, our tax, regulatory, and antitrust measures must be shaped with the aim of maintaining healthy U.S. industries in a world of global markets and international competition. There is a continuing need to review, where appropriate, the complex and costly network of regulations that have been placed on industry over the last two decades. Certainly we would hope that no new regulations would be added without rigorous examination and convincing demonstration that they would provide benefits commensurate with cost.

Beyond this, however, the difficulties of our industry will be resolved not in legislative halls but rather in the marketplace, where success is earned by offering superior products at competitive prices. Rather than seek shelter from competition in laws and regulations, U.S. automakers must continue their determined efforts to meet and exceed foreign competition.

To ensure the competitiveness of U.S.-based auto production and related employment, U.S. automakers are adopting aggressive, new and innovative business approaches. We are united with our workers in intensive, ongoing efforts to improve our efficiency, quality and cost competitiveness. We believe this is the only road to a lasting recovery for our industry.

At GM we are pursuing several exciting approaches to meet the competitive challenge.

We have launched our most far-reaching vehicle project ever—the Saturn project. Unconstrained by an introduction deadline, the Saturn team is taking a "clean sheet of paper" approach to building cars. This team has been assigned the task of examining every aspect of vehicle production with a fresh eye to see how costs can be reduced while improving product quality and efficiency and increasing job satisfaction. The seriousness and long-term importance of this project is reflected in its unusual no-deadline approach. The Saturn cars and the innovation they represent in integrated design, engineering, manufacturing, assembly, materials management, and human relations will be an historic step toward overcoming the Japanese cost advantage in small cars, and we fully expect Saturn's advances to spread throughout our entire product line.

An important element of the Saturn project is the UAW-GM Study Center. The center has been established on the principle of complete union and worker involvement in all aspects of manufacturing and assembly, plans and processes. The intent of the center is to address any issue that has an impact on labor-management relations and to make recommendations for new approaches that will contribute to our ability to produce a quality, competitive product and enhance the job security of the workers who build it.

The GM-Toyota manufacturing joint venture is another approach we have taken to meet the competition. From this venture we will obtain not only a new, competitive, domestically produced small car, but also an important learning opportunity, the invaluable hands-on experience it is already beginning to provide in tailoring Japanese small car assembly and management techniques to the U.S. environment—techniques we hope and expect can be applied to our other operations and help make our costs and quality competitive.

Another effort we have undertaken to increase our competitiveness involves structural changes in our own corporation. In particular we are consolidating our North American car operations into integrated car groups, one focusing on small cars and the other on larger cars. Each group will be totally responsible for its products, engineering, manufacture, assembly, marketing, quality and performance. We believe this new organization will allow us to focus better on the needs of the market. We expect both quality and cost to benefit from this integration and, furthermore, we anticipate significant improvements in the quality of work life experience as a result.

So, as you can see, we have undertaken a diversity of strategies to increase our competitiveness, but it is important to recognize that the managerial flexibility of U.S. producers cannot be arbitrarily restricted if they are to participate effectively in the intensely and increasingly competitive worldwide auto industry. Unless American companies are able to trade freely, invest freely, and cooperate with foreign partners for mutual benefit, both the competitiveness of our production base in the United States and the competition-stimulated efficiency of the worldwide industry as a whole will suffer, and so will American employment and economic well-being.

The alternatives to the successful achievement of such global competitiveness would be a choice between a cumulative shrinkage of U.S.-based production and employment and trying to survive on the life support system of protectionism, with its costs and inefficiencies and ultimate ineffectiveness in the absence of competitiveness.

If, on the other hand, we can produce a competitive U.S. auto industry, this will give the widest choices and best values to consumers, and well-paid, more secure employment, not just for auto industry employees, but for those in all the industries that are dependent for their health on ours, In so doing, the domestic auto industry will enhance the competitive and strategic strength of this Nation as a whole.

Senator **Danforth**. Thank you. I might say to the rest of the witnesses that you do not even have to ask that your full statement be included in the record. It will automatically be included in the record if you will summarize it. So you do not even have to take the time to ask for that. If you could just summarize your statements, because I think we have something like a dozen or so more witnesses. We would really appreciate it if you could keep within the time limit.

Mr. Whipple?

Mr. **Whipple**. Thank you very much, Mr. Chairman. I do have a shorter statement which I will go through in response to your request.

We welcome the committee's interest in auto trade issues. The domestic content bill seeks to correct imbalances in trade and jobs in the auto sector that have been most severe with respect to Japan. These imbalances result from several factors. Some are under the control of manufacturers, but others result from distortions in the way the international trading system operates.

Unbalanced currencies are a major factor. The yen and the dollar are still misaligned by 25 percent, and this misalignment imposes a serious disadvantage on American products competing with Japanese products at home and abroad. Some progress has been made following President Reagan's Tokyo visit and early reports from the discussions in Rome are encouraging. But the yen still has not been allowed to play its proper role in the international monetary framework, and the dollar continues to be inflated by excessive budget deficits and the high interest rates that go along with these deficits. So the misalignment persists.

Taxation poses a similar handicap for two reasons. First, the U.S. tax system is uncompetitive internationally. The United States is about the only developed country that does not forgive significant domestic taxes on exports and collect similar taxes on imports at the border. Second, Japan levies a selective commodity tax on passenger cars and certain other consumer durables. This tax distorts trade by depressing demand for these products in Japan and providing incentives to export. Beyond this, Japan's base tax burden is relatively low because it spends so little on defense.

These competitive handicaps are a major contributor to the United States represented by Japanese trade, and 80 percent of this was accounted for by the 2.2 million vehicles and parts that Japan exported to this country. This year's deficit is forecast at $100 billion, which translates into the loss of some 2.5 million American jobs, $25 billion in tax revenues, and an extra $10 billion in unemployment costs.

Large trade deficits are not just a U.S. problem—last year the European Community reported a trade deficit of $22 billion. At the same time, however, Japan amassed a record trade surplus of $32 billion.

Such trade imbalances exceed reasonable bounds, and the stakes in world trade are very high. As a result, Japan has been confronted with and accepted export limitations on many products to many countries. In the case of the European Community, for example, informal export restraints apply to Japanese steel, machine tools, consumer electronics, passenger cars, and light trucks, among other products. Exports of Japanese cars are limited in one way or another to countries that account for 90 percent of free world car demand outside of the United States and Japan.

Export restraints are not an ideal permanent solution, but ideal solutions are not easy to come by in today's imperfect world of distorted trade relationships. In the United States, though, export restraint has served to assure that jobs from the economic recovery have gone to American workers, not to workers in Japan, and to neutralize to some extent the artificial Japanese trading advantages. As auto demand has recovered, 100,000 U.S. jobs have been reinstated at Ford, GM, and Chrysler alone, and this has had multiplying benefits for the rest of the U.S. economy.

Meanwhile, a remarkable revolution has been taking place in U.S. auto products and plants and in employee attitudes. At Ford, for example, we are starting to see the payoff from the $10 billion investment in new products that we have made since 1979, and consumers are beginning to respond to the 55-percent improvement in the quality of our products.

We have improved productivity by 25 percent, and reduced annual operating costs by $4 billion. These sharply reduced costs, new products, better quality, improved productivity, and higher volume have been the major elements in Ford's return to profitability, not big price increases as some have suggested. Contrary to claims that prices of U.S. cars have been inflated during this period of restraint, BLS data show that overall car prices have risen less than inflation during this period.

In the case of small cars that compete directly with the Japanese, like the Ford Escort, U.S. car prices have risen by only 2 percent a year, which is less than half the rate of inflation. It may be a surprise to some people, but the fact is, the sticker prices of our best selling Escort cars are lower today than they were in 1982.

Looking to the longer term, most people seem to agree that the Japanese ought to establish automotive production in the United States to create jobs and invest in the economy in some reasonable proportion to their sales here. A few Japanese producers have moved to establish U.S. production facilities. This gradual movement of foreign based automotive manufacturers into U.S. production has accelerated in the last few years. We think this form of voluntary response is preferable to statutory requirements.

Mr. Chairman, we at Ford are absolutely committed to the actions required on our part to be fully competitive in products, quality, productivity, and technology. These are factors that private industry can control, and we think we are succeeding. Ford believes the best way for Government to help correct the imbalance in auto trade and jobs is to work toward equalizing the conditions of trade. This would enable American workers to benefit from the growth in demand that we expect.

Until the conditions of trade can be equalized, the Government could act by supporting temporary Japanese auto restraints or by more directly encouraging foreign producers to locate in this country. These actions also would preserve American jobs.

We recognize that the action choices will be difficult for our Government leaders, but choices have to be made. If no Government action is taken, American demand will be served increasingly by foreign production, and American firms will have no choice but to follow suit. Ford is an American company, and we want to stay an American manufacturer if we can. Only Government, however, can deal with exchange rates, taxation, and trade policy, the fundamental external issues that help determine our competitiveness as a nation.

Thank you.

Senator DANFORTH. Thank you, sir.

Mr. Perkins?

Mr. PERKINS. Thank you, Mr. Chairman. I appreciate this opportunity to express Chrysler's views on the domestic content legislation.

Since my time is limited, let me say at the outset that Chrysler regretably cannot support domestic content legislation. As our chairman, Lee Iacocca, has testified on three different occasions, we believe in the long run a domestic content law could do more harm than good.

Mr. Chairman, I would like to say that I spent 23 years of my Chrysler career outside of the United States, 15 of those in Japan and Australia, and have managed manufacturing facilities in two different countries that have domestic content laws, Argentina and Australia. From my experience, I can tell the committee that domestic content laws do not work all that well, if for no other reason, they are almost impossible to administer in a way that does justice to their intention.

However, having said that, Mr. Chairman, I would like to emphasize and emphasize strongly that Chrysler is very sympathetic to what we perceive to be the overriding desire of the proponents of this bill, that is, to encourage auto investment in the United States and to protect autoworkers' jobs from unfair foreign competition. In fact, we believe those objectives to be essential to the long-term strength and viability of our industry.

Chrysler believes the best long-term answer to keeping auto investments and jobs in the United States is not a domestic content law, but rather finding a solution to what we see as the root of the problem, and that is the unfair $1,600 a car advantage that the Japanese enjoy in the United States, because the differences in our two countries' tax systems remain unaddressed, and because of the undervalued yen, overvalued dollar situation, which is getting worse rather than better.

And let me cite as an example in the last 4 weeks a typical Japanese subcompact picked up a further cost advantage of $169 when the exchange rate moved from 223 yen to yesterday's or the day before's 233 yen. That is in addition to what we estimate to be a

$900 advantage the Japanese already had due to exchange rates about a month ago.

These two well-documented economic advantages, exchange rates and taxes, which are totally unearned by the Japanese, have steeply tilted the playing field in our trade relations to their favor. Lifting the voluntary restraints on Japanese cars before these two problems are corrected or offset, as Mr. Brock suggested 22 days ago, would be a grave mistake both for jobs and auto investment in this country.

Conventional wisdom to the contrary, the fact is, Detroit has not been gouging prices in order to maximize profits, and to line its executive pockets with big bonuses. Most of those claims, by the way, are based on a Wharton study which was paid for by the Japanese Automotive Manufacturers Association, hardly an objective source.

In fact, during the first 3 years of voluntary restraints, and I will not go through all of this, our price increases during the restraint period went up 11 percent. CPI went up 17 percent, and like the Ford Motor Co., on our products, compact cars, those K Cars, Omni, Horizons, and so forth, they went up 1 percent a year, hardly gouging.

It is true that in some cases monthly payments have gone up, but frankly, people are buying higher priced cars with more options. In other words, steak instead of hamburger. And somehow, the butcher is setting blamed.

Recognizing that the long-term health of our domestic auto industry is far from assured, despite the short-term successes we are now enjoying, Lee Iacocca last week before the national convention of the League of Women Voters proposed bringing together the leaders of the auto industry, the UAW, and the Government to work out a plan to make the industry more competitive.

Last week, Senator Danforth, I think you very correctly asked, what would the parties bring to the table in terms of sacrifice? Mr. Iacocca's proposal meets, we believe, what you were talking about.

In return for governmental action to level the playing field in international trade by aggressively addressing the yen-dollar imbalance and tax differentials, Chrysler is offering to freeze prices on its U.S.-built small cars immediately, and limit its executive bonuses for its top managers to about half of those paid by our competitors. We have not had one, by the way, for 7 years, and in exchange for modification of the uncompetitive work rules by the UAW, an agreement to tie wage increases to productivity and quality improvements.

Chrysler is further offering to freeze its foreign outsourcing at its current level of just 7 percent. Mr. Iacocca also made it clear that if restraints are lifted without the level playing field being made level, then Chrysler regrettably will have no choice but to follow the lead of General Motors and go to the Far East for the rest of our small cars. And Ford would probably also follow suit, and altogether, that would be bad new for jobs in this country.

Of course, lifting the restraints would have the added negative impact of also cutting off the incentive, and there is an incentive here, we believe, for Japanese automakers to invest in this country. We strongly support Nissan and Honda's commitments to invest over $1.2 billion in the United States, but we should all recognize that these investments were in large part a result of voluntary restraints on cars and high tariffs on pickup trucks.

Mr. Chairman, the U.S. auto industry spent a staggering $61 billion in the past 5 years on new products and quality and productivity improvements to make itself competitive in the world arena—substantially adding to an already considerable debt burden. Yet we can never be fully competitive until the yen/dollar problem is resolved—and lowering the Federal deficit and U.S. interest rates would be a big step in that direction—and an answer is found to the Japanese tax advantage—such as adopting a commodity-tax systems of own in this country.

In finishing, Chrysler stands ready to do its part to ensure the competitiveness of this Nation's most important industry. The UAW has responded positively to Mr. Iacocca's invitation to work out a plan, as Owen Bieber testified here last week, but we cannot fight the tide alone. Only our Government working with Japan's Government can iron out the yen-dollar differences and the tax differential problems. Only our Government can make sure the restraints stay in place until these fundamentals are attacked.

Chrysler looks forward to hearing from the Government on what we believe is a constructive program that is good not only for the American worker and for American manufacturers and suppliers, but also good for the American consumer.

I thank the committee for this opportunity to testify.

[The following information was subsequently received for the record:]

## THE CASE FOR CONTINUED IMPORT RESTRAINTS ON JAPANESE PASSENGER CARS—THE CONTINUING SEARCH FOR A LEVEL PLAYING FIELD

The United States should demand an extension of the Voluntary Restraint Agreement (VRA) on imported Japanese cars until fundamental trade and tax inequities are resolved.

### WHY NOT LET THE VRA EXPIRE IN 1985?

The U.S. auto industry faces a critical decision: to commit billions of dollars to building new small cars in America, or to move design and production to the Far East to obtain the same currency and tax advantages enjoyed by its Japanese competitors.

In fact, the departure is off to a fast start. When the VRA expires in March 1985, General Motors will import 200,000 cars from Isuzu and 100,000 from Suzuki in Japan, and up to 80,000 or 90,000 from Daewoo in Korea. In its joint venture in California with Toyota, GM will build another 250,000 cars a year, with 50-60 percent imported Japanese components. Ford will build 130,000 Mazda cars a year in Mexico with most parts imported from Japan. Chrysler imports 87,000 cars a year from Mitsubishi.

By 1986, imports by U.S. companies will be about 600,000 a year, over and above 3,000,000 cars that will be sold here by Japanese companies if restraints end.

The exodus of small car production soon will be irreversible, unless:

The U.S. seizes control of its runaway deficits which are driving up interest rates and thereby (1) raising the cost of American investment in productivity and quality that is needed to become competitive and, (2) contributing to the 20 percent misalignment in the dollar/yen exchange rate. The misalignment and higher U.S. interest rates give Japanese exporters a cost advantage of $900 per car.

The U.S. adopts an offset to the unfair advantage enjoyed by Japanese car makers through the exemption from payment of the commodity tax, which ranges from 18.5 to 23.0 percent. This gives an additional cost advantage to the Japanese of $700 per car.

The U.S. negotiates an agreement to internationalize the yen. The closed Japanese financial markets were called "intolerable" by Treasury Secretary Regan during his recent visit to Tokyo (March, 1984).

The unfair cost advantages enabled the Japanese auto companies to make over $9 billion in pretax profits in the U.S. during the recession years 1980 through 1983. This was equal to their entire world-wide profit. It enabled them to invest heavily in R & D, productivity improvements and new products thereby putting the U.S. manufacturers at a further long-term disadvantage.

Until these problems are solved, only a VRA limiting the Japanese to a fixed percentage of the market (a system used by the Europeans), will prevent the U.S. from losing all of its small car industry. This percentage should be at the level originally negotiated when the VRA began in 1981 (16.5 percent) and move no higher than the current Japanese penetration of the domestic car market.

When small car manufacturing leaves the U.S., experience from other industries indicates that some manufacturers will not be hurt, and some may even benefit. But hundreds of thousands of blue collar and white collar workers will lose their jobs. Supplier industries will be damaged, including companies in steel, rubber, machine tools, electronics and plastics. States and local communities will suffer from plant closings and unemployment.

### HAVE THE RESTRAINTS RAISED CONSUMER PRICES?

Bureau of Labor Statistics data show that while the price level of consumer goods has gone up 17 percent during VRA, the base prices of today's new cars, with equipment comparable to 1981 models, have gone up only 12 percent.

The average price actually paid for new cars is up because people are buying more expensive models with more optional items. Put another way, Americans are buying steak instead of hamburger.

During the VRA (April 1981 to April 1984), the price of the Omni/Horizon, the Chrysler entry in the small car segment, declined 2.8 percent, adjusted for comparable 1981 equipment. The price of one of its primary Japanese competitiors, the Toyota Corolla, rose 15.6 percent.

### WHY IS THE VRA AN ISSUE FOR CHRYSLER?

Chrysler has made enormous strides in productivity; units per employee jumped 50 percent from 1980 to 1983. And quality has improved dramatically too.

Chrysler must make a $600 million investment decision on its 1986 small car by the third quarter of 1984.

Chrysler's preferred plan is to invest the $600 million in the U.S. to design and engineer the car in Michigan, produce body stampings in Ohio, axles and transmissions in Indiana and New York, buy other components from hundreds of companies throughout the United States, and build the car in Illinois.

Chrysler cannot risk the $600 million investment unless there is a chance of a reasonable return. No company should be expected to make such a decision.

The only alternative is for Chrysler to acquire its new small car from the Far East.

### WITH ITS RECORD PROFITS, WHY DOES THE INDUSTRY NEED VRA?

Although industry profits were strong in 1983, the American Big Four lost a combined total of $6 billion before taxes on their North American operations from 1980 through 1983.

To remain competitive, the U.S. companies must invest $15 billion per year in the years 1984-1986 to modernize plants, increase productivity and quality and bring out new products. Profits must provide most of the investment requirements.

### WHY IS THIS AN ISSUE FOR AMERICA?

Record annual federal deficits at the intolerable level of $150-200 billion will keep interest rates high and the dollar strong resulting in the yen/dollar continuing to be out of balance. This threatens our basic industries with brutal foreign competition and erodes our ability to invest in the high value-added technologies of the future. General Motors has responded to this threat by developing an Asian Strategy for buying and importing small cars. By its actions, GM is implicitly saying it can no longer compete in the U.S. with domestically built small cars. If GM, the world's largest manufacturing company, continues down this road and decides that it can't go on with U.S. production, smaller companies, such as Chrysler, will have no choice but to follow.

Movement of the U.S. small car business to the Far East, whether by increased Japanese imports or by the offshore ventures of U.S. companies, could result in structural unemployment in the U.S. auto and related industries of more than 300,000 people by 1988. Based on a recent study by the Congressional Budget Office it is estimated that this additional level of unemployment would add a total of nearly $28 billion to projected Federal budget deficits over the years 1985 through 1988. Added state and local "social costs" could be $13 billion over the same period.

Our trade deficit reached a record $69 billion in 1983. Almost one-third of that was with just one country: Japan. And 75 percent of our deficit with Japan, or $15 billion, was in just one product: vehicles. Without VRA or legislated quotas, the U.S. trade deficit in vehicles with Japan will double, to $30 billion.

The U.S. is the only one of Japan's major trading partners that does not offset Japan's exemption from payment of its commodity tax enjoyed by its exporters. This hurts America in two ways. First, Japanese car makers have a major advantage in the U.S. marketplace and this helped destroy over 250,000 direct U.S. auto jobs since 1978. Second, every Japanese car purchased in place of an American car means $1,300 in lost taxes to federal, state and local governments, taxes that must be made up by other taxpayers.

Because of the restraints, Nissan and Honda have invested nearly $1 billion in new plants in Tennessee and Ohio, creating American jobs. Other foreign investments are on the drawing boards: Honda plans to double the size of its car plant, Nissan is planning a car plant, Mazda is actively planning a manufacturing facility, and Chrysler and Mitsubishi are considering building small cars in the U.S. all of these potential investments will evaporate unless the VRA is extended or replaced by legislated quotas.

## POLICY RECOMMENDATIONS

Although it's tempting to blame Japan for the failures of the current system, the hard truth is that most of the problems originated and must be solved on this side of the Pacific Ocean. Specifically:

The Congress and the Administration must move forcefully to bring the federal deficit under control.

The Administration must press its campaign for a realistic yen/dollar exchange rate.

The U.S. must impose offsets to equalize Japan's commodity tax exemption for exported vehicles.

In the interim, the U.S. must demand an extension of the VRA or legislate quotas that allow the Japanese 17.8 percent of our car market for quota units.

These actions are vital to the survival of America's basic and high-technology industries. The international trading field is now tilted sharply against American industries; by more than $1,600 per car, for example. American car companies can become competitive only if the underlying fundamentals are corrected. Chrysler believes this agenda can be accomplished within three years, and the VRA eliminated thereafter.

Senator DANFORTH. Mr. Stucky.

Mr. STUCKY. Thank you.

AMC is the fourth largest auto manufacturer in the United States and ranks some 105th in sales among the Fortune 500 companies. American Motors has been a staunch and consistent advocate of fair and coherent U.S. trade policy to level the playing field for all importers and exporters in all major trading countries.

In this era of economic interdependence, no major company should expect to participate in a foreign market if its only strategy is to sell products and take the profits home without investing in the host country. No responsible company should expect a long-term presence in a foreign market if it enjoys unfair political and economic advantages that are denied to the host country's own basic industries.

And when we speak of unfair advantages, I am referring primarily to one country, and of course that is Japan. You have heard the litany of Japan's unfair trade advantages cited many times. My separate submission for the record filing a white paper on this theme was written by Paul Tippett, American Motors' chairman and chief executive officer nearly a year ago.

My point in submitting the paper is that all of the problems that were cited in that paper are still with us today. With the specter of a $100 billion trade deficit this year, $20 billion of that coming from trade imbalance with Japan, these problems are even more critical now than they were last year. Two of the most widely publicized problems are the yen-dollar exchange rate and Japan's use of tax subsidies to promote exports.

Virtually all economists agree that a fair yen-dollar exchange rate would be in the range of 200 to 1. A year ago the rate was 235 to 1. Today it is in the range of 230 plus or minus, despite all of the rhetoric exchanged between our two governments. The yen will not rise to a fair level until the Japanese Government treats it like a truly international currency and eases restrictions on foreign borrowing. If non-Japanese companies were allowed to borrow and trade in yen the way they can in dollars, francs, or marks, the yen would ultimately appreciate against the dollar and much of the Japanese advantage in export markets would disappear.

Hopefully, the reports of the last few days indicate that progress is being made with this issue. Japan also uses tax policy as a powerful trade tool. Cars built in Japan, for example, are exempted from the domestic commodity tax levied on all other products, while American-built cars to be exported to Japan get no tax breaks from our Government. Some economists will calculate the tax advantages alone give the Japanese-built car with a factory price of $6,000 a cost advantage of more than $1,500 over its U.S.-built rival sold in Japan.

Then you have to ask the question, is it any wonder then that the Japanese have been so successful in our market? We cannot afford to be lulled into apathy by the false security of the current industrial recovery. If we want to preserve a healthy industrial base for the future, we cannot afford to preach the virtues of free trade while the Japanese continue to violate those principles in our own market.

Some Japanese companies have recently displayed the kind of attitude that should be the norm by committing themselves to invest in production here in the United States. Voluntary import restraints accepted by the Japanese Government were another positive step. Until the Japanese revamp their foreign investment, currency, and tax policies to put exporters on a level playing field with other manufacturers, such restraints are crucial to continued industrial recovery in the United States.

The Japanese auto companies now have both large product inventories and unsold production capacity. If restraints were lifted, the Japanese could literally wipe out the competition in compact and subcompact cars in this country with their unfair cost advantages.

I am not suggesting that Congress legislate hothouse protection for the U.S. industry. Rather, we must make it clear to the Japanese that the days when they could get a free lunch are over. How do we put them on notice? Any action must fairly balance the interests of the U.S. consumer, U.S. manufacturers, and responsible foreign companies.

In the case of the automobile industry, there are four separate points to be considered. First, we must protect the American consumer's right to purchase a domestic or foreign vehicle. He or she should not be arbitrarily limited in the choice of products, and should not be penalized by an artificially high price. Second, we must preserve the U.S. manufacturers' right to use the lowest cost sources of materials and parts, including foreign sources, in order to remain economically competitive.

Third, we must not punish responsible foreign manufacturers. Fourth, we must give special consideration to Canada, the only country in the world that has a bilateral automotive trade agreement with us.

The bill before you, S. 707, fails to meet any of these four specific criteria. Its extreme requirements, especially the 90-percent content standard, could limit consumer choice, raise prices, and unnecessarily restrict domestic and foreign manufacturers alike. In the end, it could make the U.S. automakers less competitive internationally.

In short, it might jeopardize rather than protect American jobs. American Motors, however, firmly supports the principle that manufacturers who participate in the U.S. market provide jobs, pay taxes, and support the Nation's economy. This is the spirit behind Renault's alliance with American Motors, and behind other European manufacturers' commitments to produce in this country.

The basic concept of local content is not, however, incompatible with the four principles outlined above. If applied judiciously, a fair local content formula could perhaps result in Japanese automobile manufacturers locating in the United States and thus providing jobs, paying taxes, and supporting our national economy.

That concludes my oral submission. Japan's unfair trade advantages as well as specific recommendations to offset them are discussed in detail in my separate written submission—a document which, as I said earlier, was written a year ago but is even more valid today.

Thank you.

Senator DANFORTH. Thank you.

Let me just ask each of you to summarize, hopefully in one word or two, the position of your companies on the bill that is before us, S. 707, the domestic content bill. Ms. Whitman, what is the position of General Motors? Does it support it or oppose it?

Ms. WHITMAN. General Motors' position is to oppose legislation on local content, although in our entire history we have supported the principle. We oppose the local content legislation. We oppose the bill that is under consideration today.

Senator DANFORTH. How about Ford, Mr. Whipple?

Mr. WHIPPLE. I think I am also going to have a harder time saying just yes or no. Unfortunately, you may have detected in the testimony that I gave that Ford is not quite as strongly worded in its position on the bill as the other companies, and I would have to say I think that is a practical, pragmatic position. That is, we think there is a better way. We think there are more universal problems that have to be addressed, that can be addressed in a better way.

Senator **Danforth**. Do you support the bill or oppose it?

Mr. **Whipple**. Let me just finish. If they cannot, then we would disappointedly arrive at a position where we could consider something like domestic content. I do not think we are at that point yet. I am not that pessimistic.

Senator **Danforth**. Undecided?

Mr. **Whipple**. Not now is a better way to say it.

Senator **Danforth**. You oppose it for now?

Mr. **Whipple**. We think there is a better solution for now.

Senator **Danforth**. Do you oppose it or support it?

Mr. **Whipple**. I have said what my position is right now.

Senator **Danforth**. That is a nonanswer.

Mr. Perkins, how about Chrysler?

Mr. **Perkins**. As we testified, Senator, we oppose it, but we think there is a better answer, and that is continuing voluntary restraints.

Senator **Danforth**. Mr. Stucky?

Mr. **Stucky**. I believe at this point we would have to say we oppose it also. However, our comments are very similar to what was made here. There must be something else happening.

Senator **Danforth**. Is the U.S. auto industry a weak industry? Ms. Whitman?

Ms. **Whitman**. I do not think the U.S. auto industry is a weak industry. It is an industry which has had severe problems. Some of those problems have been alleviated by the current recovery and by the actions of the industry itself to lower costs and increase efficiency. We still have a significant competitive problem ahead of us. We are working on it. We have made some strides, and we have substantial strides still to make.

Senator **Danforth**. I missed the first part of your answer. You think it is or is not?

Ms. **Whitman**. I said I did not believe it is a weak industry. I said it is an industry that has had some problems.

Senator **Danforth**. Mr. Whipple, is the auto industry in the United States a weak industry?

Mr. **Whipple**. I think it is an industry that has great strengths. I would characterize it as a strong industry.

Senator **Danforth**. Mr. Perkins?

Mr. **Perkins**. I would characterize it on the edge of a knife. As a domestic industry, we could all be very healthy if we put a lot of our jobs overseas.

Senator **Danforth**. Mr. Stucky?

Mr. **Stucky**. I think it is not a weak industry, but there are a lot of problems that need to be addressed in order to continue to grow and remain strong.

Senator **Danforth**. Senator Riegle?

Senator **Riegle**. It is very interesting to try to assess the condition of the industry and what the future prospects are of the industry. You were all in the room, I think, when I was raising with the administration witnesses the question of what the future prospects look like as they are presently being assessed by the financial markets in terms of the price-earnings ratios, say, and yesterday's closing stock prices for each of your companies.

And just taking that single yardstick, not that that measures everything, but in a sense it measures a lot—it measures prevailing opinion—it would seem to confirm what you are all saying, namely, that there are some real problems in the industry. Progress has been made. We have not solved all of the matters that are ahead. We face very difficult challenges ahead of us. And we are going to have to find a way, I think, as a nation, and by that I mean public and private, management and labor, to orchestrate a strategy to let us meet those challenges successfully.

I hear all of you saying that inspite of what Trade Ambassador Brock implied with his remarks a week or so ago we are not out of the woods. He in effect said the auto industry is back, problems are solved, high sales, big profits, no more need for quotas, and basically the industry faces a good, solid, strong future where it can move ahead without any great apprehension. He may not have said those words.

But that was the thrust of the point of view that he was expressing. Do you agree with that? I would like your reaction to that. Who is right? Is Mr. Brock right, or are the financial markets right here? Not that you should just have to pick either of those, but they seem to be quite far at odds in terms of the question of how easy the future is likely to be here. I would like you to just respond to that, and we can go right down the table, if you will.

Mr. WHIPPLE. Senator, I do not know if it is the reflection in the financial markets, but I would agree with your statement 100 percent that we are not out of the woods yet. We have come a very long way, as I think we have all demonstrated in what we have done on costs and products and the technology and so on. But to conclude that the game is won, I think, would be a big mistake right now.

Senator RIEGLE. Mr. Perkins, what would be your thought?

Mr. PERKINS. I would agree with Mr. Whipple, but adding one thing. I think the companies are becoming much stronger financially on their balance sheet. But, we have got a long ways to go, and I think what is really threatened here and why we are so concerned is, our constituents who frankly saved us were our employees, and what we have been fighting more than I think any other company—I think everybody in this room knows that—is to try to keep production in the United States. That is what is really at stake here.

Senator RIEGLE. Why is that important? Why do you think it is important to keep production in the United States?

Mr. PERKINS. We think it is important for two reasons.

Senator RIEGLE. Why is it important to the Nation?

Mr. PERKINS. It is important because of what we think everybody has avoided in these discussions—except I was very interested in reading the testimony of last week, and I think Senator Danforth was really getting at it—is, are we really addressing the basic, underlying, fundamental problems. We feel is that there are distortions in the economics, that the normal flow of trade which normally when you run a $120 billion deficit that you were talking about, that would mean that the dollar would devalue.

Well, it has not gone down, and therefore we have this tremendous problem, and it is our concern that people could be sacrificed.

I was very pleased to hear Secretary McNamar say, well, in the long term, in a decade, maybe I would be worried. Well, we are worried right now because we have got investment decisions to make in the next 4 months that will either put jobs in this country or take them overseas.

Senator **Riegle**. Ms. Whitman?

Ms. **Whitman**. Senator, I share the view that the industry is not yet out of the woods, although we have come a long way. I would like to comment on the discussion we just had, and that is, we, too, share the view that it is terribly important to have a viable, competitive, U.S.-based auto industry. And might I say, in fact, that General Motors' domestic content, the percentage of our fleet produced domestically is by far the highest of any. We must be somewhere around 98 percent. Chrysler's, I believe, is 85, and Ford's is somewhere in between. That is including both vehicles and parts.

And it is our conviction that the way we are going to assure job security for American automobile workers is to continue the process we have already begun, all of us, in creating a competitive, viable U.S. industry. That is what our efforts are being directed toward.

Senator **Riegle**. I might just ask, before I go to Mr. Stucky, what if increasingly the industry were to shrink in size? Let us say the import limitations come off next spring, which has been proposed by Ambassador Brock, and let us say Japan were able to substantially increase its market penetration. Let us say that it was able to drive it up from 21 percent, say, to 40 percent. And there are estimates that they could do that because of these built-in advantages that they enjoy, given the nature of the trading gimmicks and other aspects of the current situation, and the unused capacity that they have.

If we saw something like that happen, it seems to me if we saw a major expansion of Japanese market share here and 10 or 15 percent of the domestic sales were to go overseas—whether they come from General Motors or they come from all of you on some basis—it seems to me the loss of that money out of our system as well as the loss of the jobs plus the draining of financial strength from your individual firms and from the industry, domestic industry as a whole would be quite a serious impairment that would represent quite a dangerous development.

Now, if you look at it from the point of view of a single firm and you may say, "well, it is not going to happen to me, it is going to happen to the others, and while I care about the others, I care about myself more than I care about the others, and so if it is their problem and not my problem, I can live with that." But we do not know how that might work. I am just wondering if we as a nation and you as part of the auto industry do not perhaps face a jeopardy here of a loss of market share on the margin that may start to change all of the economics of the industry and maybe start to unwind all of the progress that we have made.

I mean, unit cost is a function of how many units we produce, and if suddenly we are going to be producing fewer units because the Japanese are taking a larger slice of the domestic market, then our unit cost per car is going to go up. That is going to put pressure on margins, pressures on prices, make us less competitive. It seems to me that at some point we run the risk if we are not careful here where we could have a situation where the industry and each firm could be facing conditions that begin to impair all of you in a way that we have not seen before.

Are you concerned about the possibility of this happening if, say, the Japanese were to drive their percentage share, say, up to 40 percent? And I do not just address that to you, Ms. Whitman. I would like all of you to respond.

Ms. **Whitman**. Senator, it is precisely from the point of view of the industry and the American economy as a whole, not just from General Motors' point of view, that I say that over a reasonably long run the only way that we can assure the viability and the strength of our industry or our economy is by being competitive. I might add that, while of course it is terribly important to get back to high sales levels in this country—we have had a substantial recovery and we hope very much that it will continue, this industry did achieve major reductions in break-even levels, major cost efficiencies during the worst recession that we have had since the 1930's.

Now, I hope and pray that we will never have to repeat this experience, but we did make major progress even under those conditions.

Senator **Riegle**. But of course we have held down the Japanese penetration. I mean, the voluntary imports have kept them at a certain level. They have not been able to come in and carve out a larger share while you and the other firms were making great strides. I am wondering now if suddenly that changes and Japan, because of these other factors and these unfair trading advantages, were to decide to come in and take another 10 or 15 percentage points of market share, would that not pose a very real problem for not just your company but all companies?

Ms. **Whitman**. Of course, it would pose a tremendous problem if we were so uncompetitive that other producers could just come in here and do what they like with our market. That is what we are determined to be ready to prevent.

Senator **Riegle**. What is happening now is that the voluntary import limit has been established and they are able now to sell right up to that limit. They are selling every last car. It is not as if there is a limit set at roughly 21 percent of our market share and they are selling at 15 percent.

They are selling every last car that they can sell, and they are selling some of them at premiums. In 8 short months if that voluntary import restraint, comes off, and suddenly they are able to ship a lot more cars in here and sell them because they are able to sell all they can sell now possibly they will take as much as 20 percent of the market. What happens to the industry if another 10 or 15 or even 20 percent of market share is taken away from you within a relatively short period of time?

Are we going to be able to have the money, the cash flow to continue to modernize and complete the planned construction programs that are underway to continue to retool for the new products down the line whether it is Saturn in your case or the other new models in all the other companies? I mean, I think the magnitude of that potential risk on the margin, especially coming now, strikes me as being a highly dangerous circumstance, and I wonder if you have thought about it. Let me ask the others. I do not want to just hear from you on that point.

Mr. WHIPPLE. I would agree 100 percent, Senator, with every observation you just made. In the short run, it would be very bad indeed for the economy.

Senator RIEGLE. For the economy.

Mr. WHIPPLE. For the country, yes.

Senator RIEGLE. What is your view, Mr. Perkins?

Mr. PERKINS. I could not agree more, and I think the plans are being laid in Japan to do just that, and frankly I am just speaking for our own company and our partner in Japan. We would have to follow what General Motors is trying to do, to try to bring in another 300,000 units; we would have to be right there with them, with another 100 or so ourselves, and it just multiplies. You get up to a million and a half units very quickly, and we do not want to do it, and that is why Mr. Iacocca made the proposal he did, and we hope it gets a fair hearing.

Senator RIEGLE. But you are convinced, as an experienced person in the international trading market, that if the limits come off and there is no domestic content or any other restraint, that Japan's strategy is to make a major push for a much larger penetration. Is that what I just heard you say?

Mr. PERKINS. Yes; and I think my best witness is the vice president of the Liberal Democratic Party in Japan who immediately followed up Mr. Brock's, let's say, unwise statement from our point of view, by saying that oh, my God, and he is a better judge of Japanese character, I think, than Mr. Brock was in this case, and he knew what would happen.

And so he said hey, we may have to continue these restraints because there will be a flood in the market.

Senator RIEGLE. My time has expired on this round, but I do not want anybody to not have a chance to respond that feels a need to.

Mr. STUCKY. I would just comment, Senator, that we share the same opinions and same views. First, regarding the industry, that it certainly does not have all the problems resolved, and I think some companies are a little further along in this process than other companies for a variety of reasons.

I think in our case, we have watched it extremely carefully, and we have made very, very good progress, but for a variety of reasons, we got a little bit later start and so we have to be even perhaps more sensitive to what you are addressing and we would agree with you completely.

Senator RIEGLE. I hope to follow up shortly. My time is up.

Senator DANFORTH. Senator Ford?

Senator FORD. Thank you, Mr. Chairman.

I have read or at least perused all four statements fairly well, and the previous administration witnesses seemed to me to follow the trend that our distinguished colleague from Louisiana, Senator Long, stated at the hearing last week; that they were throwing sand in our eyes, and he, I think, for all practical purposes quit asking questions when they tried to say to us a few moments ago that there was nothing to the value of the yen or the taxing situation in Japan which would cause any problems with the domestic auto market in this country.

I think it is significant that in each of the testimonies of the industry, you allude to the fact that the yen still has not been allowed to play its proper role in the international monetary world. Taxation poses a similar handicap for two reasons, and U.S. tax system is uncompetitive internationally. The United States is about the only developed country that does not forgive significant domestic taxes on exports.

All through all of your testimonies, I get the problem with the yen and our tax program and the whole thing. And, Mr. Perkins, I was impressed with one item in your testimony. You spent 23 years of your career outside the United States, 15 of those years in Japan and Australia. And I tried to get an answer from the previous witnesses and couldn't; one, about retaliation, and so, Mr. Perkins, because of your overseas background, let me ask you this question.

A good part of the testimony of lasts week's hearing of this committee was devoted to potential retaliatory actions which Japan would take if such a program as you have advocated here today were put in place. And from your experience in the Far East, do you see this happening?

Mr. **Perkins**. Senator, I guess I would have to disagree with the previous witnesses that I have heard this morning and reading the testimony of last week. First off, and I think any American hates to judge what the Japanese will do in a given set of circumstances, but from my experience the Japanese are born negotiators and very good negotiators, and they do not like confrontation. And I use the example of Mr. Nakaido and what Vice President Bush was able to get out of him in a very short meeting in Tokyo as one example.

I also have to look at what has happened in the agricultural field. And a lot of discussion went on last week, reading the testimony, particularly related to farm products, but also industrial products. And let me just cite a few examples.

I have lived in a few of these countries. Canada has car quotas. They have not retaliated. Australia has car quotas, and they have domestic content, and there has been no retaliation. South Africa has heavy content and quotas, and very high duties. Argentina, now a total ban; Brazil, a total ban on built-up units. The EEC, some form of orderly marketing agreements from zero percent to a high maybe of 11½ or 12. And, of course, as Senator Riegle said, 18 to 22 percent, whichever month you want to pick in the United States, is what our quota is worked out to.

Look at it another way. The Japanese, as a group of people, just are not inclined, I think, to retaliate in any major way. They want to negotiate; they may even take the first step of going to GATT, but you have got to remember that they see us as their biggest customer. This huge trade thing going one way—they do not want to lose that $30 billion of trade advantage that they have with the United States, so they will try to negotiate.

And so we think, frankly, holding them at their current level certainly is a very fair deal compared to about a 10 percent level.

And let me say one other thing from my Australian experience. When the Australians put in—and frankly, their current ambassador, Sir Robert Cotten, was the minister at the time who negotiated the Australian/Japan agreement—and he made a very important statement. He said to the Japanese, we cannot be a nation of just farmers and miners; that is only 20 percent of our working population. We have to take care of the rest.

Senator FORD. I do not think I could add anything to that, Mr. Chairman, and I think we are finding the business community—the business community giving us the kind of statements we have been trying to secure. And I still go back to the theory—and I think the Senator from Missouri has been—that has related to the questioning last week, that they are beginning to come from all sides as it relates to imports.

It is not just automobiles. I think it is all coming together, and I am very concerned, very, very concerned about the total picture, and I am very hopeful that we can work out a thread that I heard from all four of these witnesses, that basically they agree with what we are trying to do. They may not agree with the total method, but in essence something has to be done.

If voluntary restraints are taken off at the beginning of next year and they lose their compact car market, we are right back into the gas guzzlers that we tried to get out of, that Congress mandated that you get out of. The average fleet mileage—what is it—27 miles per car per gallon.

So I hope that those of us who see the problem in a national picture will not be criticized too severely, and I wish those who are opposed to this legislation would quit scaring other people. They are frightening other people, that you will never sell another product. Your prices will go down; they will retaliate; all of these things. And it is beginning to grate just a little bit on me, and I think these four witnesses representing the auto industry and what they said at this table, indicates that the Congress had better get after it, and get after it in a decent sort of way and quit kidding ourselves that we do not need something similar to this.

Senator DANFORTH. I would only say that the witnesses represent the auto companies. They do not represent the farmer. The American Farm Bureau, the American Soybean Association, the National Farmers Union, the National Council of Farmer Co-ops, and on and on and on, are just scared out of their wits about this legislation, because they believe there is going to be retaliation.

And it is also important to point out that when Mr. Penner testified last week from the Congressional Budget Office, he estimated that even without retaliation, there would be a net job loss of 66,000 as a result of this legislation, and a gross job loss of 173,000 people.

So I think the witnesses have done what they should do. They have spoken about employment in the auto industry, but there are people in other industries, and there are farmers and there are consumers who are going to be hurt by this legislation, and so I think there are many other sides of this picture.

Ms. WHITMAN. Mr. Chairman, may I be allowed, since the position of General Motors has been characterized by someone else, to say a word about our position?

Senator DANFORTH. Of course.

Ms. **Whitman**. As I believe I made clear in my statement, our view is that beyond what the Government has to do on monetary and fiscal and regulatory policy and attempting to achieve greater internationalization of the yen, it is our belief that the difficulties of our industry are going to be solved not in legislative halls, but in the marketplace.

That is our position.

Senator **Danforth**. I think that is correct. I do not think there is any answer for the car companies, unless they are able to compete in the marketplace.

Senator **Ford**. Mr. Chairman, could I get into this?

Senator **Danforth**. You can in your turn. I would like to ask a question on the relative tax burden in Japan and the United States.

The Congressional Research Service has calculated that when all levels of taxation—national, State, and local taxation—are included in 1983, the effective tax rates for manufacturing companies was 27.7 percent in the United States, and 50.5 percent in Japan.

How does that square with your testimony?

Mr. **Whitman**. I think one has to make a couple of distinctions here: First, there is a tendency, depending on whether one is trying to show that the tax burden falls more on one side or on the other, to look more at either corporate taxes on the one hand, which are on the whole somewhat higher in Japan; or at employee and payroll taxes, which are higher here.

If one tries to take a look at the total picture as best one can, what one finds is that if one compares a typical Japanese and American car sold in the United States, the dollar tax burden borne by the American car is somewhat higher, but as best we can tell, the tax rate burden as a percent of sales is roughly the same. That is, the higher dollar tax burden, which indeed is there, is due largely to the fact that we have a larger labor input, that is, a higher number of labor hours per car and a higher labor cost per hour.

Senator **Danforth**. Everybody has been blaming Government for the problem and the taxes, and now you are saying that the problem is the number of hours per car and so on, and not the tax rate.

Mr. **Whitman**. If we do get a chance to take a look at the American tax system as a whole next year, I hope very much that our Government will look at this larger question of the relationship between our tax system and our competitive position. But the fact is, as far as we have been able to tell, if we could solve the problem which we are now embarked very intensively on solving, of efficiencies in production, that would also have a major positive effect on the problem of the greater dollar tax burden which American cars currently carry.

Senator **Danforth**. Well, I do not know that American cars do. I mean the effective tax rate, as indicated, is significantly higher in Japan.

I would like to ask one question of each one of you. Can you tell us the effective Federal tax rate for your companies for the last 2 years?

Mr. **Perkins**. I can very easily, Senator. We happen to have lost a considerable amount of money for a considerable period of time, and we are not back to square one. We call it our sea of red ink. So we are not paying any, but we look forward next year to start paying it.

Senator **DANFORTH**. I hope so, but it is hardly the Federal tax burden that is wetting you down.

Mr. **PERKINS**. No. But, Senator, I would like to say no, but having sat on the board of a Japanese company, and knowing whether they were going to sell a car to a Tokyo housewife or to a housewife in St. Louis, MO, they have a tremendous incentive to, knowing that they can sell that car $700 cheaper in St. Louis, MO, than they can in Tokyo.

Senator **DANFORTH**. How much taxes is Chrysler paying? How much did it pay in the last couple of years?

Mr. **PERKINS**. I'm sorry. We went through a tremendous loss period, so I would say probably, when you add in local/State taxes in the State of Michigan, our local taxes, we are probably down around 5 or 6 percent. We hope to be back up to 48 percent.

Senator **DANFORTH**. How about Ford?

Mr. **WHIPPLE**. I do not have the precise number with me, Senator. We are a little farther into the black, of course, than Chrysler Corp. We did pay taxes last year, and we will be paying corporate taxes again this year.

Senator **DANFORTH**. Could you submit for the record the effective taxes paid by Ford for the last years?

Mr. **WHIPPLE**. I would be happy to.

[The following information was subsequently received for the record:]

The automotive industry is a cyclical business, and we are in the process of recovering from a severe recession, During the 1980-1982 period, Ford incurred pre-tax losses that totaled more than $3.5 billion worldwide. These losses were more than accounted for by our U.S. operations. The U.S. operations were profitable in 1983, and we resumed the payment of income taxes. We expect our payments of income taxes to increase substantially in 1984.

Although our earnings and corporate income taxes have been cyclical, Ford has continued to pay a substantial amount of taxes to Federal, state, and local governments on a regular basis. For the 1970-1983 period, for example, Ford (and its subsidiaries) paid over $10 billion of taxes to various government agencies in the United States.

[In millions of dollars]

| | Federal income taxes | All other taxes | | | Total taxes |
|---|---|---|---|---|---|
| | | Federal | State and local | Total other | |
| 1970 | 330 | 694 | 164 | 858 | 1,188 |
| 1971 | 373 | 739 | 176 | 915 | 1,288 |
| 1972 | 506 | 178 | 227 | 405 | 911 |
| 1973 | 230 | 248 | 210 | 458 | 688 |
| 1974 | (63) | 274 | 174 | 448 | 385 |
| 1975 | (112) | 237 | 177 | 414 | 302 |
| 1976 | 252 | 287 | 223 | 510 | 762 |
| 1977 | 539 | 380 | 310 | 690 | 1,229 |
| 1978 | 380 | 442 | 357 | 799 | 1,179 |
| 1979 | (157) | 467 | 310 | 777 | 620 |
| 1980 | (580) | 390 | 270 | 660 | 80 |
| 1981 | (234) | 429 | 285 | 714 | 480 |

| | Federal income taxes | All other taxes | | | Total taxes |
|---|---|---|---|---|---|
| | | Federal | State and local | Total other | |
| 1982 | 16 | 404 | 283 | 687 | 703 |
| 1983 | 101 | 375 | 363 | 738 | 839 |
| Total | 1,581 | 5,544 | 3,529 | 9,073 | 10,654 |

[1] Reflects Ford Motor Co. and Ford Motor Credit Co.'s currently payable U.S. Federal income taxes.

[2] Prior to 1976 amounts represent taxes deducted on Federal income tax return.

Moreover, based on a study of costs and taxes for Ford, its suppliers, and their employees, the total Federal, State, and local taxes paid as a result of the company's U.S. operations are estimated at about six times the amount paid directly by Ford.

Senator **Danforth**. How about General Motors?

Ms. **Whitman**. I, too, would have to provide that for the record.

[The following information was subsequently received for the record:]

General Motors Corp.,
*New York, NY, August 9, 1984.*

Hon. Robert Packwood,
*Chairman, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, DC.*

Dear Mr. Chairman: This letter responds to two questions raised during the May 24 hearing on S. 707 held by your committee at which I appeared on behalf of General Motors Corporation.

Senator Danforth asked that GM submit for the record our effective Federal tax rate for the last two years. For 1983, the effective Federal tax rate on General Motors' U.S. income, as reported in published annual statements, was 37.7%; for 1982, there was a credit because the tax accrued on the low earnings for that year was more than offset by the amortization of investment tax credits. The 1983 figure is based on U.S. domestic income and accrued Federal income taxes.

Senator Riegle asked GM to provide for the record our estimate of the impact on the domestic auto industry if the voluntary Japanese auto export restraints ended next spring, and Japanese market share went to 40 percent. The Senator's question is difficult to answer because there are so many possibilities involved. It is especially difficult for us to answer because we do not believe the Japanese market share would increase to 40 percent if restraints were removed.

For the 1986 model year, sales of Japanese imports would increase to no more than 25 percent of total U.S. passenger car sales. This would be an increase from the 1983 share of 21 percent, but the growth of total U.S. passenger car demand will also mean that U.S. sales would also be higher than in 1983. We have looked at this question from both the marketing side and the capacity side.

Consumers choose particular cars on the basis of many factors including price, quality and utility. We compete head-to-head with the Japanese on all these factors. Given the segments in which the Japanese compete, a 40 percent share is highly unlikely. For instance, *WARD's Auto World* (June 1984, p. 35) estimates that, to "achieve 42 percent of the market, the Japanese would have to preempt the entire small-car, sporty-car and prestige-car market—even though they'd have only 25% of the total market entries and merely 11% of retail franchises . . . (W)ith their now-small dealer body, expected additional products . . ., domestic production plans, price position and current gasoline prices—Japanese manufacturers could not achieve 42 percent of the U.S. market, especially in two years."

A 25 percent share of total U.S. sales in the 1986 model year would not leave Japanese companies with excess capacity. Japanese firms have not made large additions to capacity in the last few years, and would not have the capacity to produce the 2+ million *additional* cars required to reach a 40 percent market share. However, as the world continues to recover from the recession, Japanese production and capacity are likely to increase.

Of course, if U.S. companies do not become more cost competitive, over the longer term Japanese firms probably could achieve large increases in market share. Over the longer term, production capacity and retail franchises can be increased and, therefore, would not be limiting factors. We do not expect this to happen, not because of any lack of ability on the part of the Japanese, but because we intend to be competitive.

We in the industry are following closely the competitive position and ability of the Japanese auto companies. As I said in my testimony, GM's response has been to adopt a number of strategies which we believe will increase our competitiveness. We sincerely believe that the public policy focus must not be on protectionism, but on domestic monetary, fiscal, tax, regulatory and antitrust policies aimed at improving U.S. competitiveness generally.

We appreciate this opportunity to make known our views.

Sincerely,

MARINA v.N. Whitman.

Senator DANFORTH. Mr. Stucky?

Mr. STUCKY. I will have to supply it for the record. Of course, we are still paying property taxes, not corporate income, but employment taxes and so forth, so there is still a fairly lengthy list of taxes that are included in the United States.

[The information referred to follows:]

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AMERICAN MOTORS CORP.,
*Washington, DC, September 18, 1984.*

Hon. BOB PACKWOOD,
*Chairman, Senate Committee on Commerce, Science, and Transportation, Washington, DC.*

DEAR MR. CHAIRMAN: Pursuant to Sen. Danforth's request, outlined below are the taxes paid by AMC and its consolidated subsidiaries for 1983:

*AMC and consolidated subsidiaries tax expenses—1983*

| | |
|---|---|
| F.I.C.A. (Employers share of social security taxes) | $40,492,000 |
| F.U.T.A. (Federal unemployment tax) | 1,973,000 |
| Various State unemployment taxes | 12,629,000 |
| Property taxes | 6,800,182 |
| State income taxes | 1,078,958 |
| Foreign incomes on royalties, interest, etc. | 800,000 |
| Franchise and other miscellaneous State taxes | 1,480,584 |
| Michigan single business tax | 1,431,268 |
| American Motors Sales Corp. excise taxes | 242,308 |
| AM general excise taxes | 6,692,245 |
| Total | 73,619,545 |

AMC did not pay any Federal Income Taxes in 1983, due to massive losses suffered by the industry, as well as AMC, in that taxable year.

I hope that this information is helpful.

Sincerely,

KEVIN P. TIGHE.

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Senator DANFORTH. Taxes are too high. Look, I am on the Finance Committee. I am always concerned about taxes, but I think that it is so easy to try to blame somebody else for problems. Let's blame the Government. It has got to be Uncle Sam's problem. Uncle Sam has been part of the problem. I have always conceded that, but I think that sometimes we just assume well, this is all Uncle Sam, and I do not think that that is so at all.

You know, it is interesting. I do not know of other industries that lean—I guess there are some—but there are a lot of industries that have stiff competition from abroad, who do not spend nearly as much time complaining to Washington as the auto industry does. I wonder why that is.

Senator FORD. Are you wondering out loud, or is that a question?

Senator DANFORTH. I am wondering out loud.

Senator Riegle?

Senator RIEGLE. I want to cover a couple of other things here, and I think it is very valuable that you are here as a panel together. Let me tell you what I hear, and you tell me if I am hearing it right. Because there is some difference of opinion at the table, but generally speaking it seems to me—that in the case of AMC and in the case of Chrysler, and in the case of Ford, and I think less so in the case of General Motors—and I want to make that distinction—but in the case of the other three, it seems to me you are saying that there are serious problems here in terms of the trade inequities. It is very important that they be dealt with. Time is short. You have laid out a series of things that you think need to be addressed and changed, and in all three instances, as I hear your testimony, you say that you are not prepared to endorse domestic content as the answer today.

I hear you saying that if all else fails, that if these other urgent problems are not dealt with on a timely basis, and we do not get back to a fair kind of international trade and competitive system, that eventually, in the absence of any effective remedies, that that would have an impact on your thinking; and at that point you are willing to take a look at domestic content as a possible solution. While it is far less than the solution that you would like to see, that at least you would be open to considering it at that point, as sort of a last resort, given the gravity of this problem.

Is that a fair characterization, at least in the case of AMC and Chrysler and Ford?

Mr. WHIPPLE. I think it is precise in the case of Ford. I am not so sure, Senator, about the other companies.

Senator RIEGLE. Let's find out.

Mr. STUCKY. Yes, it is, Senator. That is our position.

Mr. PERKINS. In the case of Chrysler, I would strongly hope that people will look seriously at the plan that our chairman put forward, because there is always a tendency to look in black and white terms, and we think this is what is wrong with the debate in the United States.

I guess, in answer to whether it is a good last resort, I guess I would have to ride with what Ambassador Mansfield said last year, which if you do not have anything else, at least it gives us a club to negotiate with.

Senator RIEGLE. Now, I made the differentiation because I feel that the thrust of the testimony of General Motors is different, and so that you would not be prepared, I think, to give the same response. But let me hear what your response would be.

Ms. WHITMAN. Senator, I am not prepared to say under what conditions we would or would not change our views on such legislation. Let me say that I am sufficiently optimistic about the progress of this industry and of what I hope will be the behavior of the U.S. Government in addressing some of the serious issues that I listed, to hope that we will not have to confront that question.

Senator RIEGLE. Yes. I think that is helpful, although I gather, then, you would be prepared to join in the first part, and that is to say that there are some serious problems in the trading system and in the financial relationships that bear on the trading situation that you think action is needed upon.

You do not perhaps stress that quite as urgently as do the others at the table, but you do mention them in page 2 of your testimony.

Ms. **Whitman**. I think, Senator, that the overvaluation of the dollar does cause difficulties, severe difficulties for a number of industries, and certainly we are one of them. And I would like to see a significant improvement in that situation.

I think, again, that the things that have to be done are, first, to get a better monetary and fiscal mix in this country. I think that in the short run, that is the crucial thing.

Over the longer run, perhaps the internationalization of the yen would be helpful, but I do not think you would get any immediate results out of that.

Senator **Riegle**. One thing I would like all of you to provide for the record, is what you think the impact would be on the domestic industry if restraints came off next spring, and other steps were taken, and Japanese market share went to 40 percent, say, within 12 months. I would like to know what kind of an aggregate impact you your economists think that would have on the industry.

Mr. **Whipple**. We would be happy to.

[The following information was subsequently received for the record:]

We believe that U.S. producers have made substantial progress in narrowing the competitive gap with Japanese products, which hopefully would prevent an overnight surge of this magnitude. Nevertheless, a weak currency and a tax system that encourages exports combine with high productivity and relatively lower wage rates to bestow a substantial cost advantage on auto production in Japan. If this situation is not corrected by industry and government actions, it could lead to a considerable increase in the share of Japanese-produced cars.

Based on generally accepted assumptions, a 40% Japanese car share, or an increase in Japanese shipments of some 2.5 million units annually, would have the following effects on domestic auto production:

The loss of the equivalent of 10 assembly plants and a like number of engine and transmission plants.

The loss of some 300,000 auto and component supplier jobs, with a total job loss throughout the economy of roughly 500,000 jobs.

Extraordinary difficulty for U.S. producers to meet the fuel economy requirements mandated by the Energy Policy and Conservation Act, which might well cause further large losses of U.S. car production and jobs.

The forcing of U.S. producers to undertake accelerated programs to resource offshore, leading to even further losses of U.S. car production and jobs.

There would be additional national impacts:

The nation's auto trade deficit with Japan would nearly double from its current level of $18 billion to $30–35 billion, aggravating an overall U.S. trade deficit that is already untenable.

U.S. governments would lose $3 to $4 billion in tax revenues, and unemployment compensation and welfare costs would climb by some $2 billion.

Senator **Riegle**. I want to just briefly raise an issue we have not raised today, but was raised the other day in the hearing. That is, the nature of the jobs and the value added in this industry and in this work and in this product, versus other industries.

We had another Senator come in last week and talk about selling pens, fountain pens, to Japan and I am all for selling as many fountain pens as they will buy, but fountain pens tend to be a relatively inexpensive item when you compare it, say, to an automobile.

And if you are talking about items that sell, say, for $10,000 or $12,000 or $8,000 or $15,000, you are talking about a product with a high value added component. In the stream of commerce that leads up to in terms of all the raw materials that go into it, all of the successive jobs, the successive building up of the value added, the end value of the product, the wages paid, the taxes paid, and then sending that stream of money back out through the economy— because in a free market economy that money never stops moving— you are talking about a big addition to our national economy.

I mean one person's paycheck becomes the purchasing power that employs other people and so forth on down the line, so it keeps moving. You take $120 billion a year out of your country, and put it in a foreign country, you have got big problems.

We are beginning to experience that. As the number goes higher, I think the problems get even bigger.

It has been said in a number of national articles that General Motors, which is our largest industrial company, and of course out of this industry of which you are all part, now employs fewer people than the McDonalds' hamburger company.

And I think it is a very significant development, because what is happening is—and a study was just made public last week—that we are losing more and more of the middle class jobs, the jobs that might pay $18,000, $20,000, $22,000, $24,000, $25,000 a year. We are systematically seeing those jobs disappear, and what we are getting in exchange are jobs closer to the minimum wage, whether at McDonalds' hamburger, or even in what is called high tech.

Many of those jobs would pay an annual salary half of what we have seen as the basic wage structure in the industrial industries, partly because we have got very high value-added products that we are producing, the car being one such thing, and we have been an intensely productive industry. If I am not mistaken, I think General Motors alone has more robots today and machine tool type robots in that part of high technology than any other company in the United States.

So any notion that somehow it is a backward industry is just not borne out by the facts.

My concern is this: that as we to have a further onslaught in this trade invasion even more jobs would disappear. If the trade deficit were to rise above $120 billion, and we were to see the foreign market share car sales maybe approach 40 percent, it seems to me many more of these jobs, these higher paying jobs, these middle class jobs would disappear. These are the jobs that let people buy new homes, the average price of which last week in this country is now up to $96,000. It seems to me that those are nice jobs to have and those are jobs we ought to keep; and that, as a nation, we have to think very carefully about whether we want to let those jobs go someplace else overseas, to be replaced by jobs that are, say, making hamburgers at McDonalds or working in a dry cleaning shop at the minimum wage, or other things like that.

And as this continues to happen, it seems to me that we are going to run the risk of not only weakening and impairing our job future and our financial strength as a nation, but we are going to undo what I think Henry Ford, the original Henry Ford, started to do back at the time when he thought it made sense to pay workers $5 a day on the theory that the workers ought to be consumers, and they ought to be able to work and produce in such a way that they could end up buying the very product that they were making.

That set in motion out of this industry, in a sense, a whole revolution. And the middle class, in very large measure, developed as a result of that.

I think that is in jeopardy today. Here we are struggling down in El Salvador today to try to build a middle class. They are in revolution because they do not have one. We have one. But I think it is shrinking and I think it is under great stress and great jeopardy. You represent the one signal industry which is in many ways the heart and the soul of the industrial capacity of this country—the steel, the glass, the aluminum, the machine tools, and all the rest of it.

And it seems to me that what you are saying to us today is that this industry is in a fragile condition. Strong, yes. Strong history, yes. But tough problems, unsolved. We do not have the answers; we have got some major difficulties facing us; and the fact of the matter is, the financial markets today are not sanguine about our future prospects. They are quite concerned, and I share that concern.

I have never asserted that domestic content is a perfect answer. But I do not know that we have ever produced a perfect answer around here. It is an attempt at putting an answer in place that has the prospect of reversing the situation and giving us long-term strength.

And so if it is not here and now, as I hope, it will be, we will still have to go to it later or we are going to find ourselves unable to provide the needs of our people, pay our bills, meet our defense commitments, and everything else, because we are just not going to have the basic economic strength to do it.

Senator **Danforth**. Are there any more questions for this panel? We have a vote on the floor now. We can either recess and bring the panel back——

Senator **Ford**. I am going to let them go as far as I am personally concerned, and I have enjoyed their testimony. I think they have been very significant, to my thinking and my judgment. And I look at what Mr. Perkins had to say about Australia, who was the second-largest trader/purchaser from Japan, and 57 percent duties and 27 percent of the market, and all those things that they did back several years ago, and their balance of payments improving in favor of Australia.

I think it is significant that, if the panel is correct, we make some effort as it relates to the yen and taxation, then that is all the Government ought to do. Under those circumstances, they can meet any competition that is out there.

So if Government would limit its concern to the taxation and the yen problem, then they feel—if I get the gist of it—that they can handle their own problems. And that may be Government's leadership in this, rather than going to some other route.

Senator **Danforth**. Well, if the Senator from Kentucky can figure out a better tax rate than zero, I would be happy to hear it.

Senator **Ford**. Well, if this administration would help them make money.

Senator **Danforth**. Thank you very much for your testimony. Now, it is my intention to come right back, to be back in about 10 minutes and proceed with the other panels.

[Recess.]

Senator **Danforth**. Mr. Howard Samuel, AFL-CIO; Mr. Leon Lynch, United Steelworkers; Mr. William Bywater, Electrical, Electronic, Technical, Salaried and Machine Workers; and Mr. Mylan Stone, United Rubber, Cork, Linoleum, and Plastic Workers.

Gentlemen, thank you all for waiting so long today. Mr. Samuel, would you like to begin?

## STATEMENTS OF HOWARD SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO, ACCOMPANIED BY BRIAN TURNER, AND KEIR JORGENSEN; LEON LYNCH, VICE PRESIDENT, UNITED STEELWORKERS OF AMERICA; WILLIAM H. BYWATER, PRESIDENT, INTERNATIONAL UNION OF ELECTRICAL, ELECTRONIC, TECHNICAL, SALARIED AND MACHINE WORKERS; AND MYLAN STONE, PRESIDENT, UNITED RUBBER, CORK, LINOLEUM & PLASTIC WORKERS OF AMERICA

Mr. **Samuel**. Thank you, Mr. Chairman, on behalf of the panel. We are also accompanied here by Keir Jorgensen, the research associate of the Amalgamated Clothing & Textile Workers Union, who will be available to answer questions in the area of his union which is, of course, the textile industry, and also by Brian Turner who is director of legislation and economic policy for the Industrial Union Department at the far end.

Taking advantage of your offer before to have our testimony incorporated, I will summarize very shortly. I just wanted to inform the Senator that 5 years ago approximately, in 1979, I was a Deputy Under Secretary of Labor and a member of an administration team headed by, incidentally, then Under Secretary of State, Richard Cooper, a well-known free trade advocate, when the administration tried very hard to persuade the Japanese to switch their manufacturing to this country for products which were going to be sold in this country.

We did so, because we already saw in 1979 that imports were very rapidly disrupting the automobile industry, a crucial industry in our economy, and also because we wanted to do something about the very unfavorable balance of trade, which even in 1979 was seriously imbalanced, and a major part of that imbalance was caused by trade in the automobile industry.

Our diplomacy in 1979 did not work, and as a result, what we are doing here today is seeking from the U.S. Congress the same goal through legislation. We do so, fully aware that we are the only major industrial country, as you are aware, that does not restrain auto imports, including Japan of course, which has automobile imports amounting to less than 1 percent of the market; that imports have, ever since 1979, continued to play a major role in disrupting a major part of our industrial sector; and that the imbalance of trade, which already was quite visible in 1979, has now reached a level which threatens our entire economy.

We have heard a number of arguments against it, some of which were, I think, disposed of by your earlier witnesses. I was particularly impressed by Mr. Perkins' reply in respect to the question of retaliation. It seems to me that any possibility of Japan undertaking retaliatory activities, since they sit themselves behind what I might call a glass barrier affecting aerospace, telecommunications, autos, and all kinds of other industrial products, is unlikely to the point of impossibility. Those, as you know, sitting in glass houses, do not normally throw stones.

One of the other reasons used against the automobile industry and its unions is the fact that they pay wages which are too high. I would like to point out to the committee that real wages in this country have been declining since 1972; that in fact, if wages have been a major factor in the competitive equation, they are less so in 1984 than they were 12 years ago.

Finally, may I remind the Senator and the committee that this is a problem affecting not only the automobile industry; it affects hundreds of thousands of workers in other industries—in steel, electronics, rubber, and textiles, glass, and so forth—and that is why the Industrial Union Department, which represents the unions operating in those industries and their workers, is extremely grateful for the committee's giving us this chance to testify on behalf of those other industries.

And I would like—Mr. Bywater, I think, will present his testimony first.

[The statement follows:]

### STATEMENT OF HOWARD D. SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO

Mr. Chairman, my name is Howard D. Samuel and I am president of the Industrial Union Department (AFL-CIO). The industrial Union Department is a semi-autonomous council of 53 AFL-CIO unions with over five million members, many of them in the auto assembly, components and parts industries. We support S. 707 as a key element in a program to restore the primary industry in America's manufacturing sector.

I don't think there is much need for me to reiterate the facts and figures which describe the present state of employment in the automobile industry. In spite of the recovery in sales 170,000 jobs have disappeared directly in the auto assembly sector since early 1979, with another 300,000-450,000 lost in allied sectors. The causes include several factors, but there can be no question that auto imports, which have captured over 20 percent of the U.S. market, are a key factor in reduced employment which has continued even with the so-called recovery.

The auto industry is not the only U.S. industry that is vulnerable to imports. For two decades, industry after industry has suffered in a similar fashion, and in many cases the U.S. government has taken action to ameliorate the impact according to international and domestic trade laws. Both the General Agreement on Tariffs and Trade (GATT) and our Trade Acts of 1964, 1974 and 1979 provide for safeguard or escape clause avenues of relief. These are not paths to protection; they merely recognize that an industry subjected to a surge of imports is entitled to a temporary breathing spell in order to adjust.

Among the industries which have felt the impact of such import surges are textile and apparel, specialty and carbon steel, color televisions, shoes, and a number of others. All have received support in some fashion from the U.S. government. All, that is, except the auto industry, the largest of all. True, the office of the U.S. Trade Representative has persuaded Japanese manufacturers to voluntarily limit their exports so as to not completely destroy U.S. auto and related manufacturing capability. But these voluntary restraints, because they are not linked to a specific share of the market, resulted in dramatically increasing the Japanese share when recession reduced consumer purchases—which was exactly the opposite effect that import restraints should be designed to achieve. Instead of reducing the impact of Japanese imports during recession, the voluntary restraints increased the impact.

As soon as possible after an upturn in U.S. domestic auto sales, word comes from the U.S. Trade Representative that the voluntary restraints on Japanese auto sales in the United States must be ended—in spite of the fact that auto and auto-supplying employment has not even begun to recover to its pre-1979 levels. Mistaken numbers are invoked to support the claim that auto prices have risen far above the overall rate of inflation since the voluntary restraints were imposed; taking into account—as BLS does—the fact that 1984 cars have more features (electronic ignitions, fuel injection, better fuel efficiency, etc.) than they did in the spring of 1981 when restraints were first applied, you will find that auto prices have increased not more, but less than the overall price level, 13.3 percent versus 15.9 percent (March 1981 to March 1984). We agree that the record profits now being racked up by American auto makers show there is room to moderate prices in order to further expand sales (in an environment of realistic international trade competition), but we reject the notion that the first signs of recovery should prompt the U.S. government to throw the industry and its workers back to the bottom of the hole out of which they have been laboring to climb since 1979.

What would be the effects of lifting the "voluntary" auto restraints policy without having S. 707 in place beforenand? As this Committee has heard, estimates in the national press indicate an import share rising to 50 or 55 percent of the U.S. auto market by 1988. Even if the United States were to enjoy robust economic health and record levels of auto sales in the future, the predicted 50 or 55 percent import share would push the auto and supplying industries and workers all the way down to the worst levels experienced during the 1981-1983 depression. And if the overall economy were not to be in such robust health, the consequences for auto and supplying industry workers and communities would be even more devastating.

Yet this disastrous "remedy" is precisely the policy prescription being offered by the Administration and the opponents of the Fair Trade in Automotive Products Act.

S. 707 is designed to accomplish what the government has so far failed to do—moderate the impact of imports so that an enormous and critical U.S. industry can get back on its feet and stay there with dynamic competition from foreign technology, design, and production. It provides, through a very efficient set of requirements, for many of the goals of a needed national industrial policy to assure a viable future in the United States for the auto and supplying industries. Recognizing the critical importance of international trade in an industry dominated abroad by supportive government policies and by globally oriented firms in this country, S. 707 provides simple rules for applying an axiom increasingly enforced around the world: if you're going to sell it here in large quantities, then you should make it here in significant proportions. Given that the Japanese industry has benefited from more than a generation of comprehensive industrial policies, from decades of producing fuel-efficient cars in a high-cost-gasoline economy, from the effects of virtually recession-free growth in a closed home market, and from a radically undervalued yen, the Japanese in particular need to be brought to produce in this country. And in order to produce here to offset their $15 billion automotive trade surplus, the Japanese car makers have to be induced to invest in production facilities and purchase parts in the United States.

The goal of encouraging Japanese investment in the U.S. is not new. Five years ago, under different political leadership, an Administration sub-cabinet team at its annual meeting with its Japanese peers urged MITI and other government representatives to help bring some Japanese auto manufacturing to this country. That remained U.S. policy for several years. Unfortunately, diplomacy and negotiation did not suffice. So in 1982-83 we began consideration of legislation to achieve the same goals. But now, suddenly, those government officials, economists and others who once supported domestic manufacture of Japanese cars have jumped the fence.

It is almost as if only actions which are undertaken voluntarily are legitimate. Passing and implementing laws to achieve agreed-upon policy goals—at least as they affect jobs in the auto industry—evidently is no longer seen as appropriate.

Actually, what are the objections to a domestic content law?

First, as a matter of tradition we are told that imposing trade restraints will lead us ineluctably down the road to protectionism—which in orthodox economists' eyes is obviously a synonym for perdition. Since we live in a world where no one practices free trade, the concept of protectionism has lost both its meaning and its sting, particularly in the auto sector. We'll leave the orthodox economists to revel in their nightmares. The fact is that almost all our trading partners, including Japan, have explicit or de facto domestic content requirements already in place, and have had them for years. Ask any U.S. manufacturer of aircraft, rolling stock or a wide range of other products. Over 30 countries already have local content requirements in the automobile industry. And all this, we might add, without a whisper of complaint in the GATT.

We are also told that passing a domestic content law will set off a fire storm of retaliation from our trading patners, especially Japan. I'd like to emphasize that the only foreign auto companies immediately affected by implementation of S. 707

would be the five Japanese producers, of which two (Honda and Nissan) have already opened production facilities in this country, while the third (Mazda) has announced its intention to open a U.S. plant, and a fourth, Toyota, has just been cleared for joint production of GM brand-name cars in California; this leaves only the smallest significant Japanse seller, Mitsubishi, without any definitely announced investment in U.S. production.

None of the European auto companies is affected, since they either produce above the local content requirements of S. 707 (VW/Audi/Porsche and AMC/Renault) or they import fewer than the minimum threshold level of 100,000 units annually. Like the Big Three American producers, the European companies would be constrained only by limits on reducing their present shares of U.S. value-added in the cars they sell here. Hence there would be no incentive for the European governments to retaliate, since they would not be affected.

The Japanese government, on the other hand, would have little practical incentive to retaliate given their own increasingly well known explicit or de facto local content requirements in sectors like aerospace, telecommunications equipment, fiber optics, and so on. The history of international trade negotiations with the Japanese indicates, to the contrary, that they will accommodate themselves realistically to rational and firm requirements from countries battered by their exports.

Finally, we are also told that the cost impact will fall most heavily on consumers, who will be faced with higher domestic prices absent the competition of Japanese-made cars. May I remind you, in reply, that in 1979 the Department of Labor analyzed domestic price developments in several industries where import restraints occurred. Without exception, price levels in these idustries rose less than the consumer price index. In short, providing relief to an industry under siege by imports has little, if any, effect on consumers. S. 707 in particular would maintain a high competitive environment for U.S. auto manufacturers in competition with the best cars of other countries.

But while we debate these questions, Mr. Chairman, auto workers, rubber and glass workers, steel and textile workers sit at home with no jobs and declining hope for the future. Hundreds of communities have lost resources needed to maintain a decent quality of life for their citizens. It is not at all just a question of auto assembly workers, employees of the major auto companies, or members of the UAW. At the end of 1978, there were 540,000 motor vehicle assembly workers employed in the United States, but over 2.6 million related workers in auto components, supplies parts, accessories, and auto-related services. A million or more jobs are at stake in this legislation. The members of virtually every union affilated with the Industrial Union Department are vitally affected by the health of the American auto industry, including those additional millions of workers supplying public sector and consumer services in the communities and regions across the country that depend on the automobile industry.

I am here today before this Committee with national leaders from unions representing workers in the elecrical, rubber, and steel industries to tell the full story of why America needs passage and implementation of the Fair Practices in Automotive Products Act. It seems to me that these workers' stories are concerns which should animate the Members of Congress, and S. 707 should be made law without delay.

Mr. **Bywater.** Mr. Chairman, members of the committee, I am Bill Bywater, president of the IUE. I welcome this opportunity to testify in support of the enactment of S. 707, the Fair Practices Automotive Products Act.

Reports in the press indicate that this committee has received much in the way of detailed statistics and complex econometric studies. While I have some numbers to add to the record, permit me first to examine with you the basic issue in this legislation.

The basic issue in this legislation is jobs: job and income security not only for auto and auto parts workers, but also for small businessmen, doctors, dentists, opticians, to just name a few. This is a good bill for America and its communities that need tax dollars from employed workers in order to improve their schools and maintain other essential services.

By reducing unemloyment, you will also reduce crime, heart attacks, suicides, alcohol and drug abuse, and child and spouse abuse.

The so-called fringe benefit compensation of auto workers and their dependents is more properly the compensation of hospitals and doctors. The checks are paid directly to the hospitals and doctors, not to the workers, and it is good for doctors and hospitals when workers have medical care benefits. It is good for dentists when workers have dental care benefits. It is good for druggists when workers have prescription drug benefits. And it is good for opticians when workers have vision care benefits.

Another large chunk of this so-called compensation helps pay for food and clothing for jobless auto workers, thus keeping them off taxpayer-supported welfare rolls. It is good for States with tourist industries when workers have vacation benefits and can afford to travel. It is good for States with sunny climates when workers have adequate pensions and can buy retirement homes there.

Mr. Chairman, our Labor Department's modest but adequate budget for a family of four requires a pay rate at the present time of $12.79 an hour, equal to $26,600 a year. However, a typical assembler in our General Motors plants makes only $12.25 an hour before taxes, or the equivalent of $9.63 an hour take-home after taxes, Federal, State, and local have been deducted.

In the 18 States where IUE-represented auto parts plants are located, there are 5 million jobless workers. The jobless rate in the United States is over 200 percent higher than the jobless rate in Japan. Surely, 1 million jobs created and preserved by S. 707 are needed in our Nation. Each 1-percent reduction in unemployment saves the Government $30 billion, and therefore S. 707 is good for legislators who are concerned about budget deficits.

When the United States builds small cars sold in this country, Federal, State, and local governments collect a total of $1,550 in taxes. When a small import is sold, they collect only $250, or a tax loss of $1,300 per imported car. This tax loss in 1983 came to $3 billion, thus increasing the national debt.

Mr. Chairman, our union represents 195,000 employed workers and 70,000 on recall lists in such industries as electronics-electrical, transportation equipment, instruments, and machinery. Our members produce a broad range of auto parts, including air-conditioners, batteries, brakes, electric motors, and many others.

Just a few years ago, 60,000 workers had jobs in IUE-represented shops producing auto parts. Now 20,000 of those workers no longer have jobs in our auto parts plants, and probably never will return.

Mr. Chairman, we have had auto parts jobs paying $6 an hour move from Alabama to Mexico. Certainly, there are no economic royalists doing this work on either side of the border.

In summary, there are two main objections raised by opponents of domestic content legislation: higher prices for consumers and retaliation by Japan. These opponents forget that this country's economy is sustained by mass purchasing power of workers with good jobs. They are the consumers.

Unemployed workers cut back on their purchases of goods and services and face default on mortgages. Instead of paying taxes to Federal, State, and local governments, they require higher Government expenditures which employ workers who other consumers must pay.

John Nevin, chairman of Firestone, testified recently: "If government services are to be maintained, the tax losses and added unemployment and welfare costs associated with import sales will have to be recovered from other taxes. It is the U.S. consumers who will pay those other taxes." I agree with that statement.

As for retaliation by Japan, the biggest protectionist country in the world, autos and parts account for $15 billion of our $25 billion trade deficit with Japan. Even if we imported no autos and parts, Japan would have a trade balance of $11 billion in its favor. What is more, Japan has never filed an objection with GATT or retaliated against the 30 countries that restrict auto imports. In fact, in the case of Italy, Datsun opened a plant there last year with 80 percent local content, because Italy allows only 2,000 Japanese cars across its borders each year.

Mr. Chairman and members of the committee, on behalf of IUE members and their families, and especially on behalf of our laid-off auto parts members and those whose jobs are threatened by imports and by the transfer of work to Mexico and abroad, I urge you to support enactment of S. 707.

Thank you.

Senator DANFORTH. Thank you, sir.

Mr. Lynch.

Mr. LYNCH. Mr. Chairman, Senator Riegle, I am Leon Lynch, international vice president (Human Affairs), of United Steelworkers of America. I am here today to support the Fair Practices Automotive Products Act, S. 707.

A strong domestic automobile industry is vital to our national economy and to the Steelworkers Union. I would conservatively estimate that about 25 percent of our members are employed on jobs that are directly or indirectly related to this industry.

S. 707 is necessary if we are to maintain a healthy automobile industry in the United States. The automobile industry, along with the construction industry, are the largest markets for the steel industry. In 1978, when our automobile industry was strong, we shipped 21.3 million tons of steel to the industry, which represented 21.7 percent of all steel shipments in the United States.

Since 1978, there has been a downward trend in this market; and in 1982 only 9.3 million tons of steel, or less than half the amount shipped in 1978, were sold to the automobile industry. There was some pickup in the shipments to 12.1 million tons in 1983, and in early 1984 shipments to the automobile industry indicate that this is one of the few steel-consuming industries showing strength.

The impact of the decline in shipments to the automobile industry is clearly seen in the employment figures for the steel industry. All steel-consuming industries have been depressed in recent years. The major employment decline started during the years of low auto production. In 1977, total blue collar and white collar employment in our industry, according to AISI data, stood at slightly more than 452,000 workers. By 1983, the end of the period, the total number of jobs had plummeted to 243,000.

In other words, nearly 210,000 steelworkers, or 46 percent of the total then employed, have lost their jobs since 1977. Employment in steel is now at a crisis state. Over 200,000 steelworkers have lost their jobs since 1977. Some 100,000 steelworkers have been on layoff so long that they have exhausted State unemployment compensation and contractual supplemental unemployment benefits which were both designed to cushion the shock of cyclical unemployment.

Some 150 steel-producing units, counting blast furnaces and finishing mills, have been permanently closed in the past 2 years alone. The automobile industry will remain a major market for the steel industry.

UAW estimated that about 55,000 jobs would be created or preserved in the steel and related industries. Our research supports this estimate.

Steel is not the only industry in which the Steelworkers Union has a vital interest; 34 percent of the zinc, 50 percent of malleable iron, 12 percent of aluminum, and a considerable portion of the copper produced in the United States, is sold to the automobile industry. Ours is the major union in these industries.

Employment in these industries, like employment in steel, is all sharply down; and in each of these industries stands from 35 to 45 percent below the 1978 levels. About 14,000 jobs in the copper, lead, zinc, and aluminum industries will be created or preserved by 1990 if S. 707 is enacted.

If S. 707 is not passed, we will see more devastation in the future. Steel mills making steel for the automobile industry will be closed, as will copper mines and smelters, zinc mines and smelters, aluminum-producing facilities, and numerous plants in the foundry industry. It is for these reasons and others that S. 707 is a must.

[The statement follows:]

## STATEMENT OF LEON LYNCH, INTERNATIONAL VICE PRESIDENT, HUMAN AFFAIRS, UNITED STEELWORKERS OF AMERICA

Mr. Chairman, Members of the Committee, I am Leon Lynch, International Vice President, Human Affairs, of the United Steelworkers of America. I am here today to support the Fair Practices Automotive Products Act (S. 707).

A strong domestic automobile industry is vital to our national economy and to the Steelworkers Union. I would conservatively estimate that about 25 percent of our members are employed on jobs that are directly or indirectly related to this industry. S. 707 is necessary if we are to maintain a healthy automobile industry in the United States.

The automobile industry, along with the construction industry, are the largest markets for the steel industry. In 1978, when our automobile industry was strong, we shipped 21.3 million tons of steel to the industry, which represented 21.7 percent of all steel shipments in the United States. Since 1978, there has been a downward trend in this market; and in 1982 only 9.3 million tons of steel, or less than half the amount shipped in 1978, were sold to the automobile industry. There was some pickup in the shipments to 12.1 million tons in 1983, and in early 1984 shipments to the automobile industry indicate that this is one of the few steel-consuming industries showing strength.

The impact of the decline in shipments to the automobile industry is clearly seen in the employment figures for the steel industry. All steel-consuming industries have been depressed in recent years. The major employment decline started during the years of low auto production. In 1977, total blue collar and white collar employment in our industry, according to AISI data, stood at slightly more than 452,000 workers. By 1983, the end of the period, the total number of jobs had plummeted to 243,000. In other words, nearly 210,000 steelworkers, or 46 percent of the total then employed, have lost their jobs since 1977.

Employment in steel is now at a crisis state. Over 200,000 steelworkers have lost their jobs since 1977. Some 100,000 steelworkers have been on layoff so long that they have exhausted State unemployment compensation and contractual supplemental unemployment benefits which were both designed to cushion the shock of cyclical unemployment. Some 150 steel-producing units, counting blast furnaces and finishing mills, have been permanently closed in the past two years alone.

Each automobile produced in the United States now uses about one ton of steel. The use of steel per car has declined in recent years, as our automobile companies have down-sized their fleet and the decline will probably continue in the future. Still, the automobile industry will remain a major market for the steel industry.

The United Auto Workers made an estimate of the number of domestic jobs that would be preserved by the passage of S. 707 through 1990. It estimated that about 55,000 jobs would be created or preserved in the steel and related industries. Our research supports this estimate. This is a huge amount of jobs.

Steel is not the only industry in which the Steelworkers Union has a vital interest. Thirty-four percent of the zinc, 50 percent of the malleable iron, 12 percent of the aluminum and a considerable portion of the copper produced in the United States, is sold to the automobile industry. Ours is the major Union in these industries. Employment in these industries, like employment in steel, is all sharply down; and in each of these industries stands from 35 to 45 percent below the 1978 levels. About 14,000 jobs in the copper, lead, zinc and aluminum industries will be created or preserved by 1990 if S. 707 is enacted.

The bottom line of S. 707 is jobs. It is difficult to speak of the value of a job to a worker with words. A good job, and these are good jobs we are talking about, allows the worker to support himself and his family at a decent standard of living.

It is even more difficult to express in words the absence of a job. Unfortunately, we in the Steelworkers Union and other industrial unions in the United States have had too much experience with joblessness in the last few years.

The thing that the unemployed worker wants most of all is a job. Like many of their fellow workers, these men have traveled all over the United States looking for work. There are no jobs to be found. They don't want benefits—they want jobs. They need jobs, not only for income, but to restore their sense of self-worth.

Senator Moynihan was right when he said that in America what you do is what you are. If what you do is nothing, and you cannot find anything to do, then after a while you begin to believe that you are nothing. What is worse, you begin to believe that in the eyes of your wife, and your children, you are nothing.

How does a middle-class family cope with long-term unemployment? I will tell you how. First the luxuries go—the extra telephone for the kids, the occasional meal out, the good cuts of meat on the table. Then the second car, or the boat, or the gun collection is sold. If the wife isn't working she finds a minimum wage or waitress job, if she can.

One by one the other possessions are sold or turned in to the finance company, until only the house and clothes and older furniture are left. People cling to their homes as long as they can. When they finally cannot keep them, most families move in with their parents or other relatives.

The accumulated stock of wealth of this whole group of Americans is being wiped out. As they are forced into dependency on parents, the life savings of the earlier generation are also being eaten away. The personal assets of over a hundred thousand steelworker families are being progressively liquidated.

More concrete facts on the plight of the unemployed are available in a study of the closing of the Duquesne Works of U.S. Steel prepared as a doctoral dissertation by Ray M. Milke at the University of Pittsburgh. Most of the workers covered in this study had been unemployed in excess of sixteen months at the time of the survey.

On 9 percent of the workers covered by this survey had been able to find full-time jobs. Another 19 percent had managed to secure part-time jobs. The majority of these workers have described their earnings on the new jobs as "decreased significantly."

Unemployment compensation had run out for 44 percent of the workers surveyed and was scheduled to run out within three months for another 26 percent.

Company-paid insurance continues for six months to two years under our collective bargaining agreement, but had ended for 65 percent of the families. Only 20 percent of these were either covered by spouses' policies or other outside health insurance.

Most of the workers surveyed had children living at home and were home owners. At the time of this survey only 14 percent had changed residences since being laid off because they did not meet payments for mortgages, utilities, taxes, or rent in the case of those who rented.

Dr. Milke concluded that the vast majority of these workers (80 percent) are experiencing psychologically-related distress.

Nearly 50 percent of the workers experienced mental depressions at least once a year and another 25 percent were depressed at least once a month. Suicide had been seriously considered by 5 percent of the workers.

One of the injuries suffered by unemployed families is actual hunger, in this 1980's Depression, Mr. Chairman. I know because our Union has been involved in establishing food bank systems for steelworkers and others laid off in their communities. Over 200 such food banks have operated in Allegheny County, Pennsylvania, alone.

The devastation of these families is frequently matched by the devastation of their communities. The economic injury to American workers and their families, the grave psychological shock and damage to them as they lose their dignity and sense of self-worth, and the suffering of their neighbors and communities must be included in your consideration of this matter.

If S. 707 is not passed, we will see more devastation of this type in the future. Steel mills making steel for the automobile industry will be closed, as will copper mines and smelters, zinc mines and smelters, aluminum-producing facilities and numerous plants in the foundry industry. It is for these reasons that S. 707 is a must.

Senator **Danforth**. Mr. Stone.

Mr. **Stone**. I am Milan Stone, president of the United Rubber, Cork, Linoleum & Plastic Workers of America. I am here today to lend wholehearted support of the United Rubber Workers to S. 707, the Fair Practices in Automotive Products Act.

We appreciate the opportunity to appear before this committee on this most important topic. The URW is headquartered in Akron, OH, which used to be known as the tire capital. Now Akron produces only a few experimental and racing tires and some aircraft tires. No passenger car or truck tires.

Today, we represent approximately 130,000 members who work in the rubber, plastics, and allied industries in the United States and Canada. In 1978, auto's last good year, the URW had 178,000 members. Rubber workers account for over 80 percent of U.S. tire industry production. In addition to tires, we also represent a substantial number of workers in other auto-related industries.

The livelihoods of many rubber workers, including our members, depends on a healthy automobile industry. It must also be remembered that the health of the domestic automobile industry has an undeniable influence on the overall economy of this country. The URW belongs to that group of concerned Americans who believe we must have a prosperous auto industry if we are to have a healthy economy.

The U.S. automobile industry, unfortunately, has not been healthy in recent years. There was a period of decline between 1978 and 1982 as sales plummeted and imports primarily from Japan increased both absolutely and in terms of market share.

In the rubber industry, the original equipment sector, as you would expect, tracked the decline in domestic auto sales, rubber industry shipments, and employment suffered. In addition to the obvious displacement, original equipment products, imported automobiles and trucks also have an indirect effect on the rubber industry by creating a consumer preference for foreign tires, for example, when it comes time to replace those tires.

Employment in the rubber industry fell substantially in the 1978 to 1982 period, a period which witnessed the closure of 19 domestic tire plants and the hardship and suffering associated with such unnatural disasters. Employment in our industry would have been significantly higher in the absence of an average 26 percent import penetration rate in the auto market, and 1983 has been widely counted as a recovery year, a year which supposedly shows that the domestic industry and the suppliers can get along very well without domestic content legislation.

While 1983 may have been a better year than the previous four, a closer look shows that the 1983 recovery is not cause for undue celebration that has been accorded it. Domestic auto sales last year were 27 percent below 1978. Imported cars took 26 percent of our market. Auto production worker employment was 170,000 below 1978 levels. Original equipment tire shipments were 20 percent below 1978 figures.

Rubber production worker employment improved only slightly in 1983 and was well below 1978. Had 1983 imports been made here, one direct result would have been 7,500 American tire industry jobs, plus additional jobs in other rubber products. Counting the tires that came in on imported vehicles last year and those that came in as replacements, the U.S. absorbed 44 million tires, a 26-percent jump over 1982.

In 1983 relative success in the auto industry was the combined result of a recovering economy and voluntary quotas on Japanese cars and 1984 is expected to be better than 1983 and the reasons will be the same. I hope the industry and the Government realize this and do not come to the erroneous conclusion that they are out of the woods.

There are two recent events which I feel add to the case for domestic content legislation. First, the furor over the Japanese auto quotas. Because the auto industry made record profits in 1983 and paid out what U.S. Trade Representative Brock called unbelievable bonuses to industry executives, many in the Federal Government want to end the quotas on Japanese imports. Without the quotas, Japan would increase its share of the domestic market to 40 percent.

Second are the plants of General Motors, Ford, and Chrysler to increase captive imports of small cars into the U.S. market in order to compete, a tactic that requires the absence of quotas.

This Nation cannot afford such a strategy. With increased imports from foreign-based companies and increased captive imports, I am greatly concerned that the consequence will be to put the United States out of the small car business. No one has yet accused the domestic automobile industry of being farsighted, and I will not be the first. Its emphasis on profits at all cost is a plan for the destruction of its own native market. Domestic content is needed to get foreign manufacturers to build their cars here and, it seems, to get American firms to do likewise.

Domestic content legislation would also reduce the outflow of capital and jobs as a result of the domestic automakers that seem to have an increasing amount of parts built in foreign countries. We see no reason to continue to maintain such an open market, while our competitors restrict access to theirs.

A number of countries have domestic content laws. Others have high tariffs, quotas, or some other form of trade barrier to keep out imports. Enactment of domestic content legislation in the United States would simply put us in the same ball game our competitors, particularly Japan, have been playing so successfully.

I do not believe we can afford to let our domestic auto industry collapse. If it collapses, then so does the tire industry, the synthetic rubber industry, and all the others. It is imperative that auto be given the chance to compete on the basis of fair trade, not only from the standpoint of economics involved, but also from the standpoint of national security. We have got to stop kidding ourselves and realize what is happening to the industrial base of the American economy, and we have to do it while we still have something to save.

Domestic content legislation is a step in the right direction.

Thank you for allowing me to appear here today, Mr. Chairman.

[The statement follows:]

### STATEMENT OF MILAN STONE, PRESIDENT, UNITED RUBBER, CORK, LINOLEUM & PLASTIC WORKERS OF AMERICA

Mr. Chairman and members of the committee, I am Milan Stone, president of the United Rubber, Cork, Linoleum & Plastic Workers of America. I am here today to lend the wholehearted support of the URW to S. 707, the proposed Fair Practices In Automotive Products Act. We have previously appeared before the U.S. House of Representatives' Subcommittee on Commerce, Transportation and Tourism on this subject and we certainly welcome and appreciate the opportunity to make our feelings known to this Committee.

The URW is headquartered in Akron, Ohio, which used to be known as the "tire capital." Now, Akron produces only a few experimental and racing tires and some aircraft tires—no passenger car or truck tires.

Today, we represent approximately 130,000 members who work in the rubber, plastics and allied industries in the United States and Canada. In 1978, auto's last good year prior to 1983, the URW had 178,000 members. Our members account for over 80 percent of U.S. tire industry production. In addition to tires, we also represent a substantial number of workers in other auto-related industries such as hose and belting as well as a variety of rubber and plastics products such as weather stripping, seat cushions, armrests, bushings, mountings, steering wheels, bumper guards and many other applications.

As you can see, the livelihood of many rubber workers, including our members, depends on a healthy automobile industry. The close relationship between auto and rubber is further underscored by the following:

1. Of total rubber consumption in the United States, one-fourth is imported natural rubber. Seventy-five percent of this imported natural rubber is destined for the automotive sector.
2. The remaining rubber consumed in the United States is synthetic rubber, the great majority of which is made here. More than 60 percent of this synthetic rubber is then used in the manufacture of tires and other rubber products for motor vehicles.

While I will deal primarily with the rubber industry and its dependence on the auto industry, it must also be remembered that the health of the domestic automobile industry has an undeniable influence on the overall economy of this country. The auto industry and its suppliers represent the largest manufacturing industry in the Nation with one out of every five American jobs linked in some way to this industry.

I suspect you have heard these figures before; however, I felt they were worth repeating in order to put into proper perspective the degree of reliance the U.S. has on autos and to emphasize the necessity of maintaining in this country a healthy and vibrant automobile industry. The URW belongs to that group of concerned Americans who believe we *must* have a prosperous auto industry if we are to have a healthy economy.

The United States automobile industry, unfortunately, has not been healthy in recent years. It was in a period of decline between 1978 and 1982 as sales of domestically-produced automobiles plummeted from 9.3 million units to 5.8 million units, a downward slide of nearly 40 percent, while imports, primarily from Japan, increased both absolutely and in terms of market share. From 17.7 percent market share in 1978, imports raised their position in our market to 27.9 percent in 1982. This increase would have been even greater except for the voluntary quotas on imports from Japan.

In the rubber industry, the original equipment tire sector, as you would logically expect, tracked the decline in domestic automobile sales. Between 1978 and 1982, OE passenger car tire shipments declined by 38 percent, falling from 55 million units to only 34 million units.

In 1978, original equipment tires accounted for roughly three out of every ten tires shipped by domestic manufacturers. By 1982, that ratio had dropped to about two out of every ten. The same thing happened to OE truck tires. While OE shipments represented 29 percent of U.S. shipments in 1978, they represented only 14 percent in 1982.

In 1982, the United States imported 2.2 million automobiles, 80 percent of which came from Japan. If each came in equipped with five tires, that meant there were about 11 million new tires on American roads that were not built by U.S. rubber workers. Also in 1982, the U.S. imported about 600 thousand trucks, which, if we assume also came equipped with only five tires, translates into another three million tires American workers did not produce. Add these to the 21 million imports for the passenger car and truck tire replacement markets and we find that in 1982, the United States absorbed 35 million foreign car and struck tires.

I have included the replacement market because imported vehicles carrying imported tires create a recognized consumer preference for foreign tires when it comes time to replace those tires. Imported autos and trucks thus have a direct effect on domestic original equipment tire shipments; and while the consumer preference effect is difficult to quantify, they have an indirect influence on the domestic replacement market.

One clear indicator of the effect that this had is the fact that production worker employment in the U.S. tire manufacturing industry fell from 92 thousand in 1978 to 72 thousand in 1982, a decline of 22 percent. During this period, 19 domestic tire plants closed.

There can be little doubt that employment in the U.S. tire industry would have been significantly higher in this period in the absence of 28 percent import penetration in the auto market.

Quite obviously, other sectors of the rubber industry were also hurt by this import phenomenon. Employment in rubber fabricated products dropped from 91 thousand in 1978 to about 72 thousand in 1982 while employment in hose and belting, a smaller industry, dropped by about five thousand in the same period. Automotive applications are a major market for these items and the decline in automotive production resulting from imports definitely hurt these industries.

That brings us to 1983, a different story, but one with too many old similarities. The auto industry produced more automobiles last year than it had since 1979 and reported impressive profits. The tire industry also did relatively well as total shipments rose 8 percent, fueled largely by the 29 percent increase in shipments to Detroit, and employment in the automotive segments of the rubber industry increased slightly.

With the automobile industry doing better, with the tire and related automotive products industry picking up, many will make the argument that a domestic content law is unnecessary.

But while 1983 may have been a better year than the previous four, a closer look shows that the 1983 recovery is not cause for undue celebration:

1. Domestic auto sales in 1983, at 6.8 million units, were still well below either 1978 or 1979 sales. In fact, they represented only 73 percent of the 1978 sales level.
2. Imported automobiles still took 26 percent of the American market and Japan's share of our market alone was 21 percent.
3. Hourly worker employment in the automobile industry in 1984 is estimated by the UAW at 565,000 people—down 170,000 or 30 percent from 1978 levels.
4. Original equipment passenger car tire shipments for 1983 at 43.8 million units, while a 29 percent increase over 1982, still fell 20 percent below the 1978 level of 55 million tires.
5. Production worker employment in the tire industry increased by only 800 jobs in 1983 as opposed to 1982 and at 73,200, still was far below 1978's figure of 92,000.
6. Employment in fabricated products rebounded by 3,000 workers in 1983, but at 76,400 was still well below the level recorded in 1978. The same was true of hose and belting where 1983 witnessed the addition of just 700 people to the production payroll.
7. Had the 2,386,000 cars and the 800 thousand trucks that were imported in 1983 been built in the United States, the direct result would have been 5,400 American tire production jobs and 2,000 other tire industry jobs. Domestic production would have also generated additional jobs in other rubber products.

8. The U.S. imported 2.4 million cars and nearly 800 thousand trucks in 1983. Assuming 5 tires per vehicle, roughly 16 million tires were brought into the U.S. mounted on imported vehicles in 1983. Adding 27.6 million replacement tire imports to that total adds up to nearly 44 million imported tires absorbed by the U.S. in 1983, a 26 percent increase over 1982.

I am, and I believe justifiably, concerned that the auto industry's relative success in 1983 and thus far in 1984 may prove to be very fragile and transitory.

Detroit's improvement over the last year and a half has been the combined result of a recovering economy and the quotas on Japanese-made automobiles.

There are two recent events which we at the URW feel make a compelling case for domestic content legislation. First is the furor over the Japanese auto quotas. Because the auto industry registered record profits in 1983 and paid out what U.S. Trade Representative Brock called "unbelievable" bonuses to industry executives, the federal government wants to end the quotas on Japanese imports. Without the quotas, Japan could increase its share of the domestic auto market from 25 to 40 percent, according to the two distinguished U.S. Senators from Michigan.

Second is the announced plans of both General Motors and Ford to increase captive imports of small cars into the U.S. market. GM wants to bring in approximately 300,000 subcompacts from Japan, 60,000 from South Korea and 60,000 from Mexico. In addition, GM's joint venture with Toyota would result in 200,000 U.S.-assembled cars with 50 percent imported value. Ford plans to import 60,000 cars a year from Europe next year and has decided to spend $400–500 million to build an automobile assembly plant in Mexico, with the product to be sold in the U.S. and Canada. Chrysler is also planning a major increase in its imports.

This Nation cannot afford such a strategy. With increased imports from foreign-based companies and increased "captive" imports, I am greatly concerned that the result will be to put the U.S. out of the small car business.

Domestic auto content legislation is needed to get foreign car manufacturers to build their cars here and to put a stop to this export of jobs by American firms. If nothing is done, by 1990 the import share has been predicted to be 36 percent by Chase Econometrics, 40 percent by Merrill Lynch and as much as 65 percent by a National Academy of Engineering panel, projections that mean decreased production and jobs and a struggling economy.

Domestic content legislation would also reduce the outflow of capital and jobs that is the consequence of the auto makers' decisions to have an increasing amount of parts built in foreign countries. Estimates are that imported content of U.S.-built cars could reach 30 percent by 1985. We need to stop that trend.

No one has yet accused the domestic automobile industry of being farsighted and I won't be the first. Its emphasis on profits at all costs is a strategy for the destruction of its own native market.

We see no justifiable reason to continue to maintain an open market while our international competitors restrict access to theirs. A number of countries currently have domestic content laws while others have high tariffs, quotas or some other form of trade barrier to keep out car imposts. Enactment of domestic content legislation in the United States would simply put us in the same ball game our competitors, particularly Japan, have been playing so successfully.

I do not see how this country can afford to allow its domestic auto industry to collapse. If that collapses, then so does the tire industry, the synthetic rubber industry and many others. It is imperative that the auto industry be given the chance to compete on the basis of fair trade, not only from the standpoint of the economics involved, but also from the standpoint of national security.

U.S. economic policy, both domestic and trade, seems to be geared toward penalizing American industry and the American worker. Our policies restrict investment by domestic companies while making imports cheaper and exports more expensive. We allow other countries to use unfair means to improve their economies at our expense and we do it under the guise of promoting some theoretical concept called "free trade."

We've got to stop kidding ourselves and realize what is happening to the industrial base of the American economy and we have to do it while we still have something to save. Domestic content legislation is certainly a step in the right direction.

Let me reiterate that the future employment prospects of thousands of Rubber Workers, as well as many others, are dependent upon the state of the domestic automobile industry. Domestic content legislation will help the auto industry regain and maintain true prosperity.

[In thousands]

| Year | Total domestic shipments | OE | Percent | Replacement | Percent |
|---|---|---|---|---|---|
| Passenger tire shipments: | | | | | |
| 1983 | 177,809 | 43,845 | 24.7 | 133,964 | 75.3 |
| 1982 | 164,520 | 33,981 | 20.7 | 130,539 | 79.3 |
| 1981 | 161,242 | 35,979 | 22.3 | 125,263 | 77.7 |
| 1980 | 141,845 | 34,933 | 24.6 | 106,912 | 75.4 |
| 1979 | 170,110 | 48,188 | 28.3 | 121,922 | 71.7 |
| 1978 | 190,174 | 54,963 | 28.9 | 135,211 | 71.1 |
| Truck tire shipments: | | | | | |
| 1983 | 35,820 | 5,519 | 15.4 | 30,301 | 84.6 |
| 1982 | 32,801 | 4,652 | 14.2 | 28,149 | 85.8 |
| 1981 | 34,185 | 5,732 | 16.8 | 28,453 | 83.2 |
| 1980 | 29,653 | 5,294 | 17.9 | 24,359 | 82.1 |
| 1979 | 38,743 | 9,884 | 25.5 | 28,859 | 74.5 |
| 1978 | 41,904 | 11,922 | 28.5 | 29,982 | 71.5 |

Source: RMA statistical reports.

## AUTO MARKET PENETRATION

[In thousands]

| | Autos | | | | | | Tires on imported autos |
|---|---|---|---|---|---|---|---|
| | Domestic | Total imports | Total market | Percent | Imports from Japan | Percent | |
| 1983 | 6,795 | 2,386 | 9,181 | 26.0 | 1,916 | 20.9 | 11,930 |
| 1982 | 5,759 | 2,223 | 7,982 | 27.9 | 1,802 | 22.6 | 11,115 |
| 1981 | 6,208 | 2,328 | 8,537 | 27.3 | 1,859 | 21.8 | 11,640 |
| 1980 | 6,581 | 2,398 | 8,979 | 26.7 | 1,906 | 21.2 | 11,990 |
| 1979 | 8,341 | 2,332 | 10,673 | 21.9 | 1,770 | 16.6 | 11,660 |
| 1978 | 9,312 | 2,002 | 11,314 | 17.7 | 1,357 | 12.0 | 10,010 |

Source: MVMA.

## EMPLOYMENT: RUBBER AND PLASTICS INDUSTRY—PRODUCTION AND MAINTENANCE WORKERS

[Thousands of workers]

| Year | Rubber and plastics | Tires and tubes | Fabricated rubber products, NEC | Rubber footwear | Miscellaneous plastics | Reclaimed rubber, hose and belting |
|---|---|---|---|---|---|---|
| 1978 | 591.2 | 92.0 | 90.8 | 21.0 | 368.8 | 18.6 |
| 1979 | 611.8 | 91.6 | 93.2 | 19.9 | 388.3 | 18.8 |
| 1980 | 547.5 | 84.6 | 81.9 | 19.2 | 360.0 | 16.2 |
| 1981 | 569.7 | 81.4 | 82.4 | 18.0 | 371.9 | 16.0 |
| 1982 | 534.7 | 72.4 | 72.3 | 18.4 | 357.3 | 14.2 |
| 1983 | 562.4 | 73.2 | 76.4 | 15.7 | 382.3 | 14.9 |

Source: Employment and earnings.

## IMPORTS AS A PERCENT OF THE U.S. REPLACEMENT TIRE MARKET—PASSENGER CAR, TRUCK, AND BUS

[Thousands of units 1978–83]

| Year | Domestic shipments | Imports | U.S. market | IPR (percent) |
|---|---|---|---|---|
| Passenger car tires (TSUS 772.5105): | | | | |
| 1978 | 135,211 | 12,925 | 148,136 | 8.7 |
| 1979 | 121,922 | 15,160 | 137,082 | 11.1 |
| 1980 | 106,912 | 13,743 | 120,655 | 11.4 |

IMPORTS AS A PERCENT OF THE U.S. REPLACEMENT TIRE MARKET—PASSENGER CAR, TRUCK, AND BUS—Continued

[Thousands of units 1978–83]

| Year | Domestic shipments | Imports | U.S. market | IPR (percent) |
|---|---|---|---|---|
| 1981 | 125,263 | 17,487 | 142,750 | 12.3 |
| 1982 | 130,539 | 16,993 | 147,532 | 11.5 |
| 1983 | 133,964 | 23,087 | 157,051 | 14.7 |
| Truck and bus tires (TSUS 772.5115): | | | | |
| 1978 | 29,982 | 4,259 | 34,241 | 12.4 |
| 1979 | 28,859 | 4,772 | 33,631 | 14.2 |
| 1980 | 24,359 | 4,255 | 28,614 | 14.9 |
| 1981 | 28,453 | 3,908 | 32,361 | 12.1 |
| 1982 | 28,149 | 3,705 | 31,854 | 11.6 |
| 1983 | 30,301 | 4,525 | 34,826 | 13.0 |

Sources: U.S. General Imports, Schedule A (FT135), Department of Commerce. RMA Tire Reports.

Senator **Danforth**. Gentlemen, thank you very much.

Again, I think there are a lot of us who would like to help the auto industry. I am one of them. The voluntary restraints were a result of the quota bill which I introduced in 1981. I have supported the Chrysler Loan Guarantee Program. So it is not that we have not been doing anything for the auto industry. I think we have. I certainly have. I think, really, the question is how do we balance the concerns of a variety of people in our country?

We have had testimony from the Congressional Budget Office. Mr. Penner came in last week and he said that 173,000 Americans would lose their jobs if we passed domestic content.

Now, the question of whether or not there is going to be retaliation has been disputed, but there is no doubt in my mind that there would be retaliation. But it has been disputed, so resolving that question in favor of your position, assume just for the sake of discussion that there is zero retaliation, nobody is retaliated against—even assuming that, the Congressional Budget Office says that 173,000 Americans would be kicked out of their jobs. There would be some gains for the auto industry and for your industries—but the net job loss would be 66,000.

And I guess my question is, well, what do we do about those people? If we pass this bill, what do we do for them? Should we do anything for them?

We have a program of trade adjustment assistance which attempts to make some help available for industries which are negatively impacted by trade. Maybe we should have something like that, so that these 173,000 people who are handed the short end of the stick by Congress at least get something out of it.

I would like your reaction to what we do about those people, or do we just say I am sorry, but Congress is in the business of picking winners and losers, and the unions represented here at this table are the winners, and everybody else is the loser. Too bad.

Mr. **Bywater**. Well, to begin with, I do not accept that premise at all. I do not know where they got those figures. I do not think those figures make sense at all. I would like to examine how they came up with 173,000 jobs lost. If anything, it has to be the other way around, and if we lose the auto industry—and let us assume now General Motors went overseas—they went to Mexico, offshore, all over the world—we did not have any General Motors anymore here, and then Ford and Chrysler followed and we did not have any automobile industry—what would the answer be by Congress to that particular problem?

Where are we going to get the jobs and the kind of jobs that have been talked about here prior to our testimony in terms of middle class jobs, jobs that pay the kind of wages that a person can purchase a car?

Senator **Danforth**. I understand your arguments in favor of domestic content, and my question is a little different than that. My question is what happens to these people who are hurt by the bill? Should we make some provision for them?

Mr. **Samuel**. I think, Mr. Chairman, if I could follow up what Bill Bywater has said, his basic point and mine is, too, is that the figures we have carved out, whether the figures are really meaningful and whether people really will lose jobs.

Senator **Danforth**. You don't think any people will lose jobs, Mr. Samuel?

Mr. **Samuel**. It seems to me the net result is going to be a very substantial gain in production and jobs.

Senator **Danforth**. Well, let's asssume that. I mean I do not think that is right, and you disagree with the Congressional Budget Office on that, but let's suppose that there is a net job gain. Surely there are going to be people who lose. Should we do something for them?

Mr. **Samuel**. There are people in our economic society, Mr. Chairman, as you know, who change jobs and cause changes in industry constantly. We have had to live with that for all the years of our history.

Senator **Danforth**. But you are asking Congress to do something that will cost people their livelihoods. Should we do something special to protect them?

Mr. **Samuel**. We have certain programs which are inadequate. We certainly should have more extensive programs. We have faced that kind of problem every time that the ITC has a 201 decision for an escape clause for various industries.

And let me remind you that every time that kind of an appeal has been made, we have had similar types of predictions by the Congressional Budget Office and other economists, that it would cause an absolute disaster in our country in terms of the economy and in terms of jobs and in terms of prices. And in almost every case the prediction has been untrue. It has not come true.

Senator **Danforth**. Well, surely there will be some job loss. You might disagree with 173,000, but clearly there will be some.

Mr. **Samuel**. I am not sure there would be.

Senator **Danforth**. Nobody will lose his job?

Mr. **Samuel**. It seems to me there is no likelihood whatsoever of any retaliation.

Senator **Danforth**. Again, the Congressional Budget Office is saying even without retaliation, 173,000 people will be kicked out of their jobs. Now, that is a big "even if." I do not agree with it. I think it is clear that there will be a retaliation, but even if there is zero retaliation, even if nobody loses his job by retaliation, they claim that 173,000 people will lose their jobs.

One obvious example is longshoremen. They would lose their jobs. Should we do something special in the bill? Maybe Senator Riegle could offer an amendment to provide some sort of protection or benefit or adjustment assistance of some kind for these people who are going to be given the short end of the stick.

Mr. **Samuel**. Mr. Chairman, as I said before, I think many decisions that are made by Congress and made by any administration cause changes and some disruption in the labor force. We make those decisions in full knowledge of that, and we have an inadequate trade adjustment assistance program which should be improved. We have an inadequate unemployment compensation program which should be improved, certainly.

But in the meantime what we have got to do is face the problems affecting the majority of our workers, and in an industry as large as the automobile industry and the industries that are represented by these officers of the unions, it is clear that the overwhelming weight of change should be in favor of S. 707 which would protect by far.

Senator **Danforth**. That is not at all clear, Mr. Samuel. The Congressional Budget Office disputes that. As a matter of fact, they claim many more people will be hurt, will lose their jobs than will gain jobs, not to mention any effect on the price of cars, not to mention any effect on farmers.

So, I mean, even leaving all of that out, even resolving all of those questions in your favor, there are going to be an awful lot of people who are going to be hurt, and I wonder if we should not give some thought to them, or should we just say, no, let's take care of the groups represented by you at the table. You are very effective in representing them. Let's frankly recognize that a lot of people will be hurt, and say that is our decision. We have decided that for the good of your cause, everybody else should sacrifice.

Mr. **Lynch**. Mr. Chairman, I think the effort is to save an industry, the auto industry. It is quite apparent that technological change takes place, cyclical changes are always in place. We want to make structural changes to employ the best technology that is available. Certainly that is going to cause some job decreases, and I think that is only natural. Maybe that number of jobs calculated in the figure that you received.

But that is natural, and we have not opposed new technological approaches to production. We encourage it because we want to be world competitive. But I think we have to have an industry in order to be competitive, and if we do not have S. 707 or something very similar, it seems to me we are going to lose the auto industry, and for every job we lose in the auto industry, there go seven other jobs, good paying jobs, jobs that have helped shore up this country, jobs that pay into the Social Security system, and all that we do with taxes. And that is the real issue.

Do we preserve an industry or do we on the basis of some calculation by theoreticians suggest that we lose the industry?

Senator **Danforth**. I would like to save your industry, and I would also like to save a lot of farms.

Senator Riegle?

Senator RIEGLE. Well, there are quite a few farms right now that are in big trouble that have absolutely no connection to this problem. So maybe we can have a hearing on what we should try to do to help the farmers. I am for that.

But I think that is taking this problem a long way away from where we have to center it in terms of today's discussion.

I think what we are hearing here in the course of today and the other hearing, by some who would oppose legislation or any response along these lines to this problem, is that a $120 billion trade deficit really does not hurt us very much. In fact, as I listened carefully to one of the witnesses today, he suggested that the trade deficit is good for us. In other words, that there are a lot of plusses in this.

And of course, he did not want to go on up the ladder. I mean, if $120 billion is good for us, is $150 billion, is $200 billion, and so forth and so on?

Here is the problem that we face. These are Bureau of Labor Department statistics. The average hourly wage for a manufacturing worker in the United States at the present time is $12.26. That is the average. In Mexico the average is $1.45; $1.45 versus $12.26. In Korea it is even less, $1.29 an hour. Japan is about half of what ours is. It is $6.20. In Korea today, an auto worker makes $400 a month.

Now, I know people in Michigan with small houses and small apartments that pay $400 a month for their utility bill, just their utility bill, no food, no car, no clothes, no taking care of the family, just the utility bill. So $400 a month does not go very far.

Now, the problem is that in 1984 and on into the 1980's and 1990's, with the technology transfer being what it is, and this hemorrhage of wealth out of the country, we are going to find a situation where these jobs are going to continue to do just exactly what they are doing. They are going to move to Korea. They are going to move to Japan. Japan has already taken literally millions of jobs out of this country.

Well, some around here think that that is fine, no problem. "There is no long-term concern about that. It makes us more competitive," they say. Well, if it made us more competitive, it also gave us a very substantial pool of unemployed workers in this country today. We have got literally 10 million people unemployed at a point at which the economy is roaring at the fastest growth rate we have seen for a long, long time, fueled by $200 billion Federal deficit, piled in on top to prime the pump further, and we still have 10 million people out there who cannot find work today. And it is not surprising because the work is going to other places. It is going overseas, and it is going to go at a much faster rate if all we hear are a lot of apologies on the other side that say, really, there is no problem with this.

Now, the fact of the matter is we are not going to be able to compete in any kind of a world trading system if we are talking about a living wage by U.S. standards versus a competitive wage in the underdeveloped countries or even in the developed countries, like Japan and Korea, that are substantially less.

So we have an impossible problem here, and I think in your testimony today you have put your finger on it.

Now, if we do not keep these jobs and this wealth in this country, we are going to change as a nation. We are changing as a nation. I mean, more and more, there is only one person in five today who can qualify for a new home loan.

That does not bother a lot of people in the Senate because everybody in the Senate can qualify for a home loan, and pretty much can be sure that their kids can, too, and can ensure also that most of their kids can find work when they are ready to go to work. But that is not the way it is for most Americans. So we are having a very hard time getting the facts across to people here in the Senate as to what really is going on out there.

Now, the problem is the number of jobs is going down in this area in terms of the industrial base. We are losing jobs. We are not gaining jobs. We are losing jobs. The jobs we are gaining are lower down the wage scale. They are in fast food restaurants at minimum wage jobs. They are in cleaning establishments and janitorial services. A lot of these kinds of jobs are just springing up. How can we continue if every time we lose a good job to Japan we end up with a job that pays half as much or a third as much. To think that somehow America is coming out stronger as a result of this is a dangerous mistake. According to that view of wealth creation we are going to be able to spend a trillion dollars in 5 years on national defense even with $200 billion deficits. In fact a part of that defense spending is for Japan because they do not want to pay themselves; they would rather have a higher living standard than have to shell out all of that money for defense. Only people who are insulated from the realities of this could think that we could continue to do this indefinitely.

But in terms of the people who are not insulated from it, they cannot deal with it. And the one thing that I want you to do today, if not right now, is to tell this committee what is happening to the workers that you represent that lose their jobs and cannot find other jobs. I want you to tell us what you are seeing, what is happening to those people, what is happening to those hundreds of thousands, now millions of workers who have worked in many cases for 20 or 30 years, have been terrific citizens, taxpayers, hardworking people, law abiding people, and suddenly see their firm disappear, their industry going down, their job disappear.

I think you ought to tell us about what is happening to them. This committee needs to hear it.

Mr. **Bywater**. I would like to tell you something about it because I am familiar with it. In fact, if there is anything I am an expert on, it is layoffs.

We have had layoffs in our industry, for example, the IUE at one time had 350,000 dues paying members. We are down now to around 180,000. And it does not look like we are going to recover. We have to go into some other industry apparently if we want to pick up any more members because the jobs have gone off shore. Most of them have gone off shore. The electronic industry, primarily, autos, related work.

We happen to be the second largest union that deals with General Motors. So our people are involved in the auto industry, very much so.

When our people lost jobs, we traced out what happened to some of them. We found that, for example, people that are laid off have worked in a plant for 20 and 30 years who were in their fifties could not find employment. So they collected their unemployment insurance as long as they possibly could, and when they did finally get work, it was work of a nature with rates so low that they found it impossible to survive with only one person in the family working. Consequently, the wife who had never worked before, had to go to work in some little shop in order to supplement the income of the family, and then the kids would have to take jobs on the side.

We have had experiences like this. We have had experiences of nervous breakdowns of people that got sick, mentally sick, as a result of losing their jobs. We have case histories of that happening. You just cannot brush that aside.

The figure that was put forth here about losing 173,000 jobs, I frankly do not believe that for 1 minute, not for 1 minute. I believe if anything the case is the other way around; that unless we save this industry, you are going to be losing maybe a couple of hundred thousand jobs that will never be replaced, and certainly not to the level of the pay of the workers in the auto industry today. And they are the consumers.

I keep hearing this story about consumers, that we are going to hurt the consumers. You are hurting the consumer when you lay him off. That is how you are hurting him, and he just cannot find reemployment which enables him raise his family and send his kids through school. It is getting to be a total disaster in some of these areas. Some cities are ghost towns now. You know that better than I do, Congressman. You have been around. But I have seen it.

I know the plants. I can tell you the plants where they have closed down that will never come back. It is the end. And it is the end for those families. There is no hope, no hope whatsoever. And there are not enough jobs in high tech, as they are saying. You cannot even retrain some of these people. They have been good citizens, good workers, but they did not have the high degree of education that they could just turn around, hand them a book and say, hey, learn by yourself and we will put you in high tech. High tech does not have those kinds of jobs available.

They are talking about all the work in high tech, with Atari. What happened to Atari? They went overseas to Taiwan. I know because my industry, my union is involved in that industry, the high tech, and I see it. It is happening all the time, and it is going to happen more and more.

Basic industries have to be saved in this country, and if we let them go down the drain, I am telling you, we are hurting not only the economy of the country but the defense of our country.

Mr. Lynch. I also have a very, very serious problem within my union. Two and a half years ago we had approximately 1,400,000 members. Today we have 733,000 members. All of the rest of those members have been laid off. We represent about 23 different industries. So it is not just concentrated in one particular industry.

Over 200,000 of those, of course, were in the basic steel industry. Last year alone we lost 20,000 members in the basic steel industry alone. Last year alone the basic steel industry really closed down 15 million tons of production capacity. The result on the lives of those workers who were laid off and then ran out of benefits is devastating. First, they do not have any place to go to get food. Through my office alone we have set up food bank operations throughout the jurisdictions of our union. We have raised $200,000 through my office to try to give to those people that are in a destitute situation. People don't have medical care coverage. We have been trying to get some assistance through the Job Partnership Training Act and have had very little success at that.

And I can go on and on to tell you about the people. Eighty percent of them suffer severe depression. Twenty percent of them contemplate suicide, and a few have committed suicide.

There is a direct relationship between unemployment, serious illnesses and deaths, and it is occurring repeatedly and increasingly throughout our jurisdiction. So I have first hand knowledge of the suffering that is taking place.

And as far as the training for jobs is concerned, people go, and many of my members have gone through those training programs, but there are no jobs at the end of the training. So it further frustrates them.

A few of them have their wives working and their kids working, but are yet not able to live a decent lifestyle. They have lost their homes through mortgage foreclosures. They have lost their cars. They are not able to buy the kind of food that they want to. It is just a shambles, a shame, and something that we wish we could do something about.

And that is why my union has suggested that we have quotas in the basic steel industry, and we now have a piece of legislation asking for quotas, and we also have petitioned under the 201 legislation, 1974. We are asking that quotas be put in place, 15 percent of steel coming into this country be maximized at 15 percent, not only 25 percent be allowed for iron ore, and that the industry be required through the supervision of the Commerce Department to make sure that the industry develops a plan to modernize so that the industry can become world competitive.

But if we lose the auto industry, then that is of course the biggest, now, the biggest pickup in the basic steel industry. If the auto industry is lost, then the hope is lost for steel as well.

Senator RIEGLE. I would just conclude, and I know the time is up here, and I am sure the chairman has some things he wants to raise as well, but there is the issue of health insurance for unemployed workers who are destitute and who have exhausted their benefits, have sick children or other sick members of their family, and who need our help. Several of us brought that legislation forward here in the Congress, and we went to the same people who oppose this remedy and said if you are not for that, let's at least provide the health insurance for the unemployed workers. They were not even willing to do that. They were not willing to do it. They voted it down.

So when you hear people say or express a concern about some worker that might get hurt in the future, that sort of has a hollow ring if we have walked away from the worker that is hurt today or the worker that was hurt yesterday. And that is the situation that we find them in. That is the reality.

Mr. SAMUEL. Could I just have a moment, if I could, in addition?

Senator **Danforth**. One moment.

Mr. **Samuel**. Mr. Chairman, when the U.S. Congress first took action to fight cancer, I am sure it is possible there were some CBO economists who came here and said you must not do that because it is going to cost us jobs in the undertaking industry.

First of all, I am not sure it was true. I am not sure that it is true, what we are hearing from Mr. Penner. But second, obviously there are going to be disruptions and changes caused by any action, but I think the evidence of these gentlemen around me prove it very conclusively, that the price is going to be very small to save an industry as important as the automobile industry.

Senator **Danforth**. Gentlemen, if it is true that there is such a thing as a free lunch, you have brought the Congress marvelous news today. I do not believe so. I do not believe that there is any free lunch.

I think there are going to be people who are injured by this legislation if it is passed. We don't pay the Congressional Budget Office to make things up. We ask them for the best estimate. Their best estimate is 173,000 people kicked out of their jobs by the bill. That does not include the farmers who are going to be hurt. That does not include the consumers that are going to have to pay more. People are going to be kicked out of their jobs.

I wish your industries well, and they have been wrenching tales that you have told. I have to be concerned about my autoworkers. I also have to be concerned about my McDonnell Douglas employees and my Emerson Electric employees and my Monsanto employees and my farmers, and I wish there were a free lunch. I wish that Congress could pass things and just those sugar plums would fall right out of the trees and everything would be fine for everybody. That is not the way the world works.

Thank you very much.

Senator **Riegle**. Mr. Chairman, may I just add a thought. Because I think I would not want to have the record stand without making a comment that I think it would be a terrible shame if there were a suggestion that what these witnesses are asking for is a free lunch. They are not asking for a free lunch. They are asking for a chance to work, not for a free lunch. And there wasn't anything in this testimony in any way, shape, or form that can lend itself to that.

Senator **Danforth**. I think Senator Riegle knows what I was talking about. I think that what I was talking about was perfectly clear. What is clear is whether or not you can pass a major piece of legislation without having any negative side effects. I think that that was clear, what I was talking about. But I think you know that.

Senator **Riegle**. Well, perhaps it is. What I have heard the witnesses say is that they want a chance to work, and it is time that we pay as much attention to the welfare of our people and what their future is going to look like as we do the workers in Japan. The emphasis has been turned around in this country today for bizarre reasons, but it is time to start looking after our own people and our own country.

Senator **Danforth**. Well, I think we are going to have to look after our own people and our own country, and that includes everybody who buys a car, everybody who is up to his ears in debt who is trying to farm a family farm and who is losing his farm, everybody who works for McDonnell Douglas and Emerson Electric and Monsanto and all the other people whose jobs are dependent on exports. I think we have to be concerned about them, too.

Gentlemen, thank you very much.

The final panel is Ms. Doreen Brown, president, Consumers for World Trade; Ms. Dorothy Ridings, League of Women Voters; Mr. George Nield, Automobile Importers of America; Michael Samuels, U.S. Chamber of Commerce, Ernest Johnston, Phillips Petroleum Co., on behalf of the National Foreign Trade Council.

Ms. Brown?

## STATEMENT OF DOREEN L. BROWN, PRESIDENT, CONSUMERS FOR WORLD TRADE

Ms. Brown. Mr. Chairman, Consumers for World Trade has been actively opposing domestic content legislation since it was first considered in the House in the 97th Congress, and will continue to do so until this blatantly protectionist and anticonsumer legislation is permanently defeated. We hope that this committee in its wisdom and the entire Senate will hasten its demise.

Our opposition to the bill is based on a number of premises. First and foremost, of course, is the fact that S. 707 would result in severely inflated prices for both domestic and imported cars. Statistics confirming this fact extracted from a number of studies by both Government and independent economists are included in the full statement. There are variances in these estimates which do not concern CWT because each of the studies come to the same conclusion, that should the legislation be enacted, the cost of all cars sold in the United States would increase substantially.

In addition, cars imported from other foreign countries would be likely to carry a higher price tag because of the easing of competition for access to the American market. Low-income and fixed-income consumers, those who shop price, will bear the heaviest burden of this unjustified, regressive, and unacceptable tax.

CWT appreciates the fact that one of these studies was prepared by the Congressional Budget Office because it is important that these facts become public knowledge and part of the debate from the very start, and that they be kept in mind during the legislative process.

In fact, we have recommended publicly that any time a trade restrictive bill comes before Congress, the Congressional Budget Office [CBO] be instructed to factor out the cost to the consumer and to the American economy before the bill is given active consideration. Consumers have a right to know how much they will have to pay for protectionist measures.

The second reason for CWT's opposition to S. 707 is that the cutbacks which will ensue if the legislation is adopted will severely restrict choice and availability for the consumer. Our experience with the voluntary restraints agreement [VRA] put in place in 1981 substantiates this prognosis. The VRA, although only a microcosmic example, has significantly inflated the price of autos and has made smaller, cheaper cars virtually unavailable on the marketplace.

Although CWT has not conducted a national survey, we have had informal conversations with a number of consumers, chosen at random, who are not members of CWT and who are not particularly knowledgeable about domestic content or trade issues in general. These conversations have convinced CWT that American consumers cannot be coerced or coaxed into buying a car they cannot afford or that does not meet their needs.

For example, a young working man in the District of Columbia 1 year out of school purchased a used car because he could not afford the least expensive new car for which he was shopping. An older woman in Virginia, widowed, on a fixed but comfortable income, was hanging onto the big old family car, although it does not suit her new lifestyle and is often in need of repairs, and a young woman in Pennsylvania, working for 1 year between college and graduate school, reported that the specific small Japanese car she had saved up for which cost between $7,000 to $9,000, 3 years ago, was now selling at between $10,000 and $14,000. In addition, there would be a long wait for delivery, and much of the optional equipment of the past, which she would have forgone to save money, was now standard equipment. Needless to say, she postponed purchasing a car.

And needless to say, if consumers refuse or are unable to purchase cars, domestic content legislation will seriously affect the recovery made to date by the domestic industry.

CWT's concerns extend to all consumers, including the unemployed workers in whatever industrial sector, for they are the ones especially hurt by the artificial inflationary impact of protectionism. We can find no redeeming aspect to domestic content legislation. It is anticonsumers, antijobs and anti-industry. It will benefit no one and is incompatible with U.S. trade policy.

Thank you.

[The statement follows:]

### STATEMENT OF DOREEN L. BROWN, PRESIDENT, CONSUMERS FOR WORLD TRADE

Consumers for World Trade (CWT) has been actively opposing domestic content legislation since it was first considered in the House in the 97th Congress in 1982, and will continue to do so until this blatantly, protectionist, anti-consumer legislation is permanently defeated. We hope that this Committee, in its wisdom, and the entire Senate will hasten its demise.

Our opposition to the bill is based on a number of premises. First and foremost, of course, is the fact that S. 707 would result in severely inflated prices for both domestic and imported autos.

Several studies have been published in recent months by both government and independent economists on the cost effects of this bill. The specific figures cited in the studies vary, but the conclusions are the same: If the proposed legislation were enacted, the price of all cars sold in the United States would increase substantially.

There are a number of logical reasons for the pernicious and inevitable working of import quotas—and S. 707 is a quota bill: since the foreign supplier is limited to fixed quantities, he has every interest to ship his highest priced and most profitable goods. And the protected American firm enjoys a quasi-monopoly which allows him to charge whatever the market will bear with minimum competition. In addition, the price of domestic cars would be affected, if the manufacturer were deprived of cheaper foreign sourcing. Cars imported from other foreign countries are also likely to carry a higher price tag, because of the easing of competition for access to the American market.

The consumer, therefore, is hurt in many ways and lower income and fixed income individuals would be hit the hardest of all.

The differences in the cost increase amounts presented in the various studies are of no concern to CWT. In fact, when the bill was in the House in 1983, CWT prepared and distributed a graph comparing the estimates made by the Council of Economic Advisers, the Congressional Budget Office, the Department of Commerce and the Wharton Econometrics Forecasting Association (see attached). Below, in numerical form, is a sample of these estimates:

| Source | Percent cost increase per unit | Cost increase | |
|---|---|---|---|
| | | Per unit | Per year [1] |
| CBO | 3.3 | $333 | $3.1 |
| DOC | 4.5 | 450 | 4.8 |
| WEFA | 10.0 | 1,000 | 10.6 |

[1] 1980 dollars.

Any of these figures represent an unjustified and unacceptable tax to U.S. consumers. They cannot be expected to continue to subsidize an industry, already under protection for four years and which has publicly announced all time record profits.

CWT appreciates the fact that the Congressional Budget Office has prepared a study on how domestic content legislation would affect American consumers. It is important that these facts become public knowledge, part of the debate from the very start, and that they be kept in mind during the legislative process.

In this regard, CWT has publicly proposed that anytime a bill calling for import quotas or other import restrictions comes before a congressional committee, the Congressional Budget Office be instructed to factor out what it would cost consumers and the American economy before the Committee gives it active consideration. As a minimum, no protectionist bill should be reported out of committee without such cost figures; for consumers have a right to know how much they will have to pay for protectionist measures.

The substantial cost impact of S. 707 comes as no surprise since similar evaluations have been made on the cost of the current auto quotas resulting from the Japanese Voluntary Restraint Agreement, put in place in 1981. These restraints, of course, as severe as they were, did not reduce car imports as drastically as S. 707 would, yet resulted in considerably higher consumer prices.

A study by Harbridge House in 1982 indicated that after only 1 year of the VRA, Japanese cars cost the consumer $1900 more per unit, $700 of which was attributable to a higher mix of imports. Brookings economist Robert Crandall estimates that the average price of a new car rose by $800 in 1983, $400 of which is attributable to the VRA alone.

American consumers were also affected, according to a study by Temple, Barker and Sloan entitled "The Imported Automobile Industry in America" by dealers charging $1000-2000 above list prices for particularly scarce models. Furthermore, domestic manufacturers introduced a major price hike the day the quota was announced.

Another measure of the greatly increased cost of autos today is the fact that in 1972 it took the average consumer 30 weeks to earn enough to buy an average automobile. Today, it takes him 40 weeks ("Newsweek," March 5, 1984). Brookings' Robert Crandall sums up the reaction of domestic automakers to the import quota in these terms: "the government has handed the American consumer to them on a platter, and they can't resist carving him up."

The second reason for CWT's opposition to S. 707, is that the drastic cutbacks brought on by domestic content legislation will severely restrict choice and availability for the American consumer.

Again, our experience with the VRA presents us with a graphic, if microcosmic, example of what would happen in greater magnitude with S. 707. For example:

Presently, the lower-priced Toyotas, Datsun and Hondas, the preference of American consumers prior to the quotas, are in short supply, and their prices have gone up sharply. On the other hand, a broad range of bigger, often luxurious Japanese cars is now available at prices well over $10,000. American firms, meanwhile, in a protected position, have been offering more expensive cars. As reported in the "Newsweek" article referred to previously, the economical Fairmont line has disappeared from Ford showrooms, and in its place are the new Topaz and Tempo models, which cost substantially more. The consumers thus find themselves paying more money for a more limited selection of goods, and in many cases, are unable to purchase a certain model at any price.

How are consumers reacting to this situation? CWT has not conducted a national survey. We have, however, spoken to a few people, at random and informally. Three individuals had these things in common:

1. They were not members of CWT.
2. They were not particularly knowledgeable about the domestic content issue, or trade policy in general.
3. They were potential new car buyers.

Here is a sample of what we learned:

1. A young man, in D.C., working, 1 year out of school wanted to purchase a small inexpensive American or Japanese car to get to work and for social purposes. After going to many dealers and finding no car that he could afford, the young man bought a used car.
2. An older woman, in Virginia, widowed, on a comfortable but fixed income, contemplated replacing the old family car which was too large for her and required frequent repairs. After checking out various cars and being shocked by the sticker prices, she decided to keep the car that she owned.
3. A young woman, in Pennsylvania, working for 1 year between college and graduate school, specifically shopped for a Honda, two seater. She stated that the car she had seen three years ago, which then sold between $7000-$9000, now cost between $10,000-$14,000. The cheaper model that she sought entailed a long wait and the others, in the top price range, came with everything on them. She postponed purchasing a car.

These and other informal interviews lead CWT to believe that American consumers can be neither coaxed nor coerced into the purchase of a new car if it is not affordable or if it is not the type of car which will suit their purposes, and for many, many Americans, the purpose in buying a car—the second highest expenditure after a house—is not primarily to go out on a family picnic, with numerous children and pets, as has been suggested as a reason for smaller, cheaper cars being obsolete.

Although the focus of this statement has been on the effect that domestic content legislation would have on the consumer, CWT's concerns extend to the unemployed worker, who is also a consumer and especially concerned about artificially inflated prices of consumer goods, as well as to an industry in trouble (the latter, of course, being disputable). This is why we wish to stress that no one will benefit from S. 707.

It is an anti-job bill which would cause the loss of many more jobs than would be created or regained. The CBO study indicates that by 1990, 38,000 auto jobs might be created against 104,000 jobs lost in the export sector, for a net loss of 66,000 jobs. The Department of Commerce, taking into account workers employed in positions related to the auto-import sector (dock workers, dealers, and U.S. facilities of Japanese auto companies) estimates an even greater net loss of 125,500 jobs.

It is an anti-industry recovery bill. If consumers cannot afford to buy new cars, the industry's recent progress will be slowed, if not eliminated.

It is an anti-consumer bill, for consumers will be faced with fewer cars and greatly inflated prices.

It is an anti-United States bill because the legislation could have a serious effect on our already imperiled trading system. A protectionist power play to demonstrate discontent with the trade practices of some of our trading partners will encourage a round of retaliatory trade actions which could escalate into a devastating trade war.

## THE REAL IMPACT OF DOMESTIC CONTENT LEGISLATION

The Congress has under consideration blatantly protectionist legislation—H.R. 1234 and S. 707—which would adversely affect consumers, workers and business and which would provide only short-term minor benefits to a select group of auto workers while delaying the progress that the U.S. auto industry is making toward recovery.

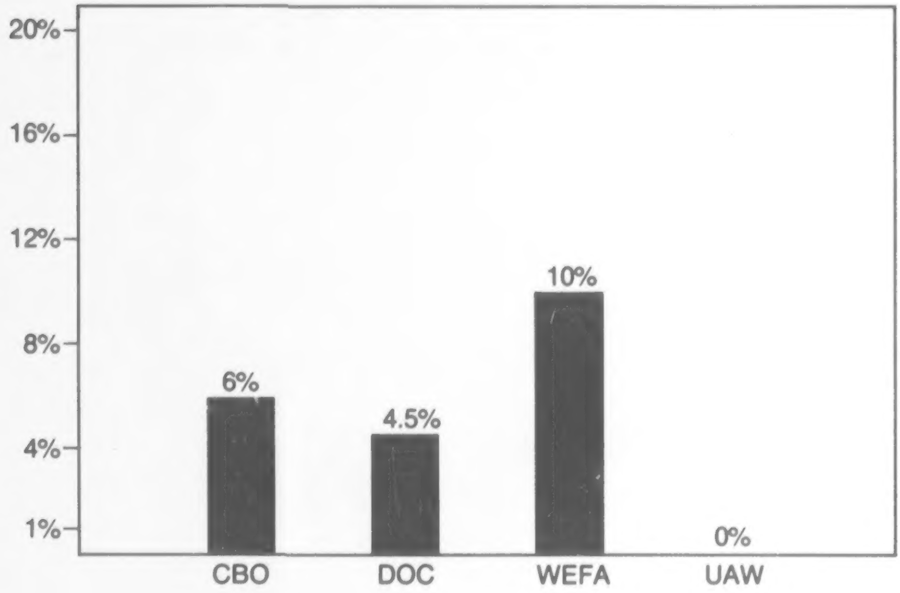
Proponents of domestic content claim the legislation is intended to restore jobs to thousands of unemployed auto workers.

*The facts tell a different story.*—Domestic content legislation will cost the consumer a great deal and will cause more job losses than job gains.

Many studies have been made on the actual effect of domestic content on consumers and workers. Why not judge for yourself.

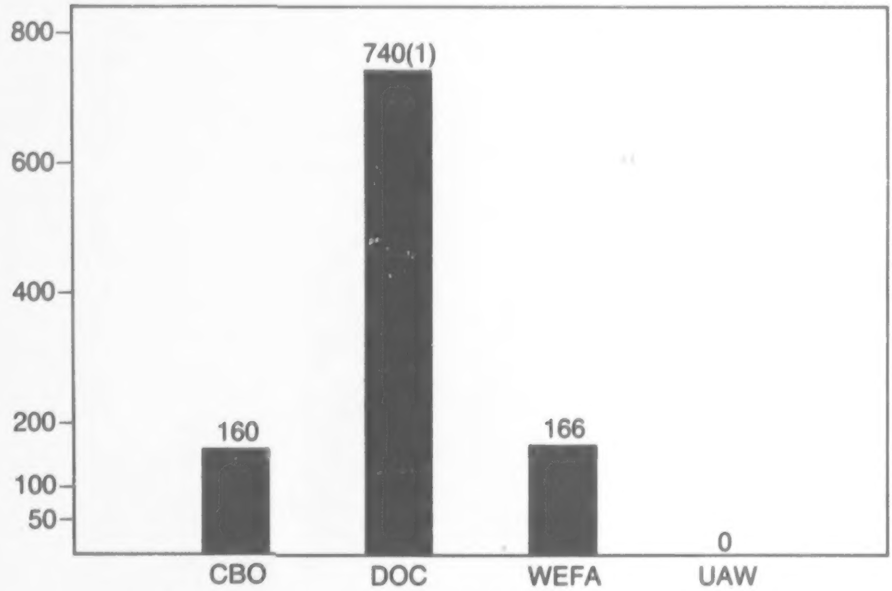
The following graphs include the results of studies made by the Congressional Budget Office (CBO), the Department of Commerce (DOC), the United Auto Workers (UAW) and the Wharton Econometrics Forecasting Associates (WEFA).

## % Increase in Price to Consumers



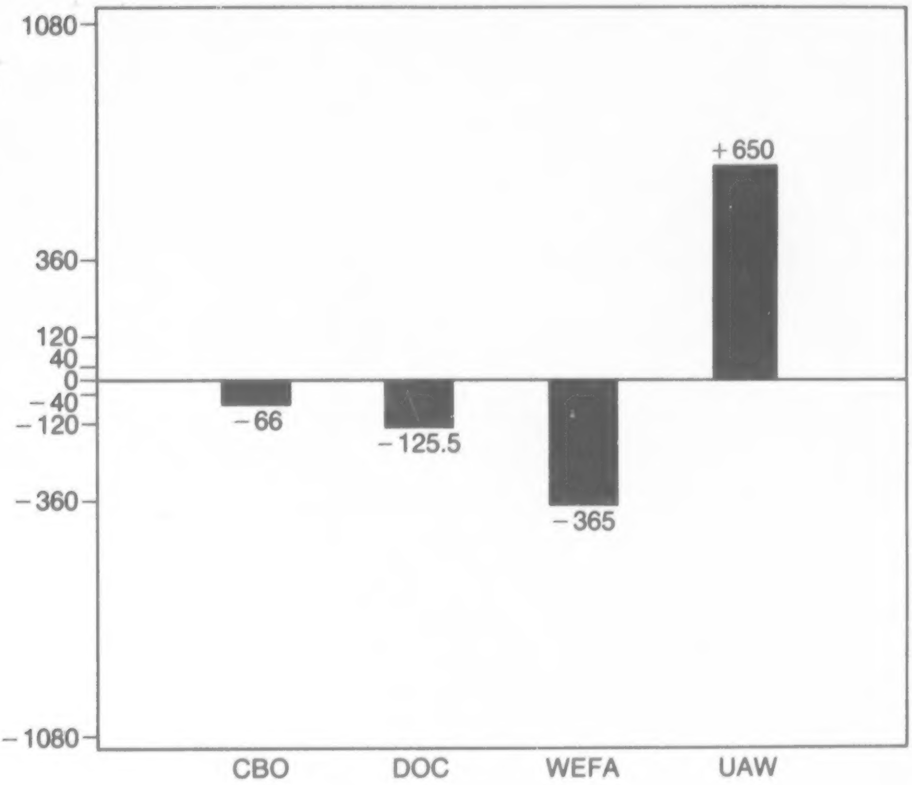
## Cost to Consumers Per Job Saved

(Thousands of Dollars)

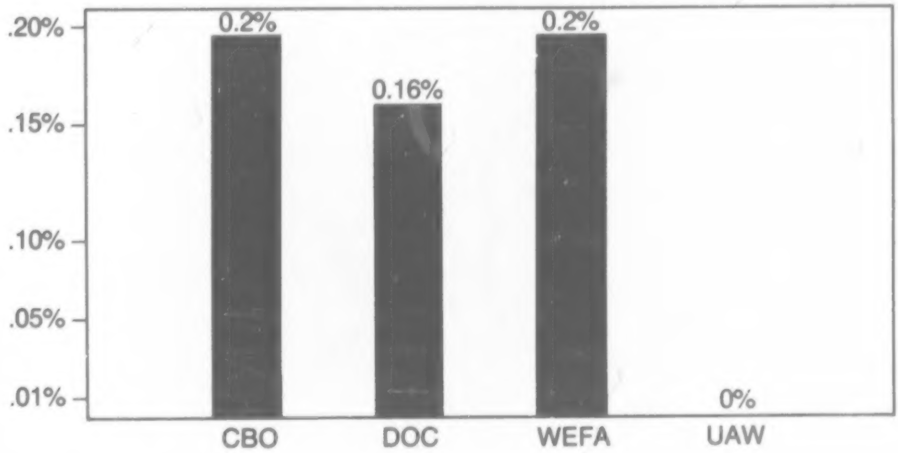


(1) The DOC figure takes into account jobs lost in port and auto import industries

**Net Jobs Effect in Auto and Export Sectors**
(Thousands of Jobs)



**% Increase in Consumer Price Index**



It is evident from these figures that domestic content legislation will benefit no one.

Not the American consumer who will have fewer cars from which to choose and who will be paying higher prices for a new car whether it be domestic or imported.

Not the workers since only a relatively few auto workers will gain jobs while many more in auto related industries and in other sectors will lose theirs.

Not the American auto industry which will have to pay more for component parts and because the cost impact will discourage consumers from purchasing new cars.

Not the United States because the legislation could have a devastating effect on our already imperiled trading system. A protectionist power play to demonstrate discontent with the trade practices of some of our trading partners will encourage a round of retaliatory trade actions which could escalate into a trade war.

Whenever legislation is enacted there are almost always some who benefit more than others.

However, in the case of domestic content legislation, we would all be losers!

Senator DANFORTH. Ms. Ridings.

## STATEMENT OF DOROTHY RIDINGS, PRESIDENT, LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

Ms. RIDINGS. Thank you, Mr. Chairman.

I am Dorothy Ridings, president of the League of Women Voters of the United States, and I will summarize my remarks since I understand the full statement will be in the record.

The League of Women Voters is opposed to automobile domestic content legislation. S. 707 is a shortsighted approach to difficult and complex problems of international trade and U.S. unemployment. Automobile domestic content requirements would impose tremendous costs on American consumers and the American economy. The automobile content requirement would not be effective in preserving jobs or in helping the automobile industry become more competitive. And domestic content requirements would be a direct violation of the U.S. international obligations under the General Agreement on Tariffs and Trade, and would set a dangerous precedent for our international trading system.

I would like to concentrate on two particular reasons the league opposes S. 707: U.S. international trade obligations and the effect on consumers of limiting automobile imports.

Domestic content requirements are in direct violation of the General Agreement on Tariffs and Trade, an important U.S. international obligation. As an executive agreement entered into pursuant to prior congressional authority, GATT is a binding legal obligation of the United States and has the same status as a treaty under international law. There can be no disagreement that the proposed legislation violates the GATT's prohibition on domestic content requirements.

Perhaps more important than the technical legal standing of the GATT is its status as the cornerstone of U.S. international trade policy. From its beginning, GATT has been an American concept brought into effect largely by American efforts. Enactment of legislation that violates GATT would declare to the world that the United States is prepared to repudiate international obligations and the international trading system we helped create.

Violating GATT opens the door to retaliation by our trading partners. Cosigners of GATT can be expected to seek compensation for lost exports to the United States. U.S. trading partners may emulate our actions and enact their own local content legislation that would discriminate against U.S. exports. With one out of seven American jobs in manufacturing dependent on exports, we cannot for a moment take lightly the repercussions that would likely ensue if the United States violates its international trading obligations.

In addition to violating international trade policy, domestic content legislation would hurt American consumers by reducing the selection of automobiles available and by causing substantial retail price increases on all cars. While the estimates from independent studies vary as to the exact increases in price on both domestic and imported cars, there is near total agreement that prices would rise significantly if S. 707 were enacted.

The Congressional Budget Office estimates that enactment of the 1982 House equivalent of S. 707 would have raised the price of new U.S. cars and light trucks by $333. Wharton Econometrics Forecasting Associates, in a study conducted in July of last year, estimated a new car price increase of 10 percent at a cost to the consumer of $18 billion per year by 1990.

Our recent experience with the voluntary restraint agreement [URA] in which Japan agreed to limit its automobile exports to the United States has shown that limiting foreign imports hurts consumers.

We are well aware of the deep concern over unemployment that motivates support for domestic content legislation. Thousands of our members are from areas that have been severely affected by unemployment. But domestic content will not help the situation. This problem must be attacked through other avenues. We should pursue a more positive approach by encouraging exports and by encouraging companies that are competitive in the marketplace. For workers who must bear the cost of increased competition from imports, assistance for retraining, relocation, or compensation should be available. The league believes that an effective adjustment assistance program is a cornerstone of a national policy that promotes liberalized trade. We think coverage under the Trade Adjustment Assistance Program should be expanded and benefit levels should be increased.

In conclusion, the League of Women Voters believes that enactment of legislation that restricts foreign imports will cost the American consumer billions of dollars a year, cause the United States to suffer slower growth, lower income, higher unemployment, and more rapid inflation.

S. 707 expressly violates an international trade agreement and risks the threat of retaliation by our foreign trading partners.

The League of Women Voters urges the members of this committee and the Congress to oppose this dangerously protectionist bill.

[The statement follows:]

### STATEMENT OF DOROTHY S. RIDINGS, PRESIDENT, LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

I am Dorothy S. Ridings, president of the League of Women Voters of the United States. The League of Women Voters is a nonpartisan political organization that influences public policy through education and advocacy. I am testifying on behalf of more than 270,000 members and supporters organized in 1,300 state and local Leagues in 50 states, the District of Columbia, Puerto Rico and the Virgin Islands. The League welcomes this opportunity to comment on the bill S. 707, the Fair Practices in Automotive Products Act, also known as the automobile domestic content bill.

The League of Women Voters is opposed to automobile domestic content legislation. S. 707 is a short-sighted approach to difficult and complex problems of international trade and U.S. unemployment. Automobile content requirements would impose tremendous costs on American consumers and the American economy. An automobile content requirement would not be effective in preserving jobs or in helping the auto industry become more competitive. And domestic content requirements would be a direct violation of U.S. international obligations under the General Agreement on Tariffs and Trade (GATT) and would set a dangerous precedent for our international trading system.

The League's long-standing interest in world trade has its origins in a 1920 study of high postwar prices. The League has been a consistent and strong supporter of a liberal U.S. trade policy. We believe that liberal trade policy best serves the long-term political and economic interests of this country. The League supports international activities that promote principles of free trade, including the reduction or elimination of quotas, tariffs and other barriers to open markets. Especially at a time when the United States is trying to gain greater market access abroad, erection of protectionist policies sets a bad example and offers no incentive to foreign nations to eliminate market barriers to U.S. products.

As a leading proponent of liberalized trade, the United States continues to expend major effort to open up markets and expand international trade. The United States can claim a good deal of credit for reducing trade barriers, a major factor in the rapid growth of trade among industrialized countries. From 1950 to 1975, merchandise trade increased at an average annual rate of eight percent, and this has made a major contribution to world economic growth. At this time, when the international trading system is especially vulnerable, it is crucial that the United States stand firm in its commitment to lowering trade barriers. It is critical that we extend a voice of reason and constancy into the debate over protectionism versus free trade.

Domestic content requirements are in direct violation of the General Agreement on Tariffs and Trade, an important U.S. international obligation. As an executive agreement entered into pursuant to prior congressional authority, GATT is a binding legal obligation of the U.S. and has the same status as a treaty under international law. The domestic content requirements of S. 707 violate Article III of the GATT. Paragraph 5 of Article III provides:

"No contracting party shall establish or maintain any internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions which requires, directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources."

There can be no dispute that a domestic content requirement is inconsistent with this provision.

Perhaps more important that the technical legal standing of GATT is its status as the cornerstone of U.S. international trade policy. From its beginning, GATT has been an American concept, brought into effect largely by American efforts. Congress and the President have enacted laws to conform to GATT. The United States has conducted negotiations under it for 35 years. Enactment of legislation that violates GATT would declare to the world that the U.S. is prepared to repudiate international obligations and the international trading system we helped create. Violating GATT opens the door to retaliation by our trading partners. Cosigners of GATT can be expected to seek compensation for lost exports to the U.S. They may retaliate against our exports. Moreover, U.S. trading partners may emulate our actions and enact their own local content legislation that would discriminate against U.S. exports. With one out of seven American jobs in manufacturing dependent on exports, we cannot for a moment take lightly the repercussions that would likely ensue if the United States violates its international trading obligations.

In addition to violating international trade policy, domestic content legislation would hurt American consumers by reducing the selection of automobiles available and by causing substantial retail price increases on all cars. While the estimates from independent studies vary as to the exact increase in price on both domestic and imported cars, there is near total agreement that prices would rise significantly if S. 707 were enacted. The Congressional Budget Office has estimated that enactment of the 1982 House equivalent of S. 707 (H.R. 5133) would have raised the price of new U.S. cars and light trucks by $333. The U.S. Department of Commerce has estimated that enactment of the bill would increase prices by 4.5 percent, at a cost to the consumer of $450 per car or $4.8 billion per year. Wharton Econometrics

Forecasting Associates, in a study conducted in July 1983, estimated a new car price increase of 10 percent, at a cost to the consumer of $18 billion per year by 1990.

Our recent experience with the "voluntary" restraint agreement (VRA), in which Japan agreed to limit its automobile exports to the United States, has shown that limiting foreign imports hurts consumers. In the past 3½ years, the VRA has substantially increased auto prices whether the automobile was a Japanese or an American model. Many potential customers have been shut out of the market because they simply cannot afford to buy a car at today's prices. Limited by the VRA, Japan has been shipping more of its higher priced cars to the U.S. market. Rather than using the time period to reduce car prices and gain a greater share of the market, American car manufacturers have responded largely by raising the price of domestic automobiles. The Wharton Econometrics study states that since the limit on Japanese car shipments went into effect, in April 1981, the average new car selling price has jumped by nearly $2,600, an increase of 35 percent. Data from the Bureau of Labor Statistics indicates that the weekly earnings necessary to purchase a car have risen from 29 weeks to 37½ weeks since 1981.

The main argument by the proponents of S. 707 is that the bill would create or preserve over a million jobs—jobs in the auto industry and jobs in autombile-related industries. We believe the evidence contradicts the jobs creation claims. The Congressional Budget Office estimated in 1982 that if domestic content legislation were enacted, by 1990 some 107,000 jobs (38,000 direct auto jobs and 69,000 in auto-related industries) would be created, while some 173,000 jobs would be eliminated because of restrictions placed on non-auto exports by our trading partners. The U.S. Department of Commerce estimates that domestic content legislation would result in a net increase of only 6,500 jobs in the auto industry. In addition, S. 707 could affect $5.5 billion of U.S. exports, directly affecting the jobs of 132,000 U.S. workers in export industries, according to the Commerce Department. Witnesses at congressional hearings have testified that the bill would eliminate many thousands of jobs for port workers, teamsters, and employees of foreign car dealerships. Workers in other industries and in agriculture would also be victims of retaliatory actions by our trading partners.

We are well aware of the deep concern over unemployment that motivates support for domestic content legislation. Thousands of our members are from areas that have been severely affected by unemployment. But domestic content will not help the situation. This problem must be attacked through other avenues. We should pursue a more positive approach by encouraging exports and encouraging companies that are competitive in the marketplace. For workers who must bear the costs of increased competition from imports, assistance for retraining, relocation or compensation should be available. The League believes that an effective adjustment assistance program is a cornerstone of a national policy that promotes liberalized trade. We think coverage under the Trade Adjustment Assistance program should be expanded and benefit levels should be increased.

Finally, we believe that singling out the U.S. auto industry for special treatment will undermine their current efforts and progress toward increased competitiveness. American companies are becoming leaner and more efficient. They are retooling, developing new production methods, and designing the higher quality products more desired by U.S. and international consumers. Domestic content requirements may increase their costs and discourage them from developing more efficient technology.

In conclusion, the League of Women Voters believes that a liberal U.S. trade policy paves the way for political harmony with other nations, stimulates economic development at home and abroad, and expands consumer choice. Enactment of legislation that restricts foreign imports will cost the American consumer billions of dollars a year, cause the United States economy to suffer slower growth, lower income, higher unemployment and more rapid inflation. S. 707 expressly violates international trade agreements and risks the threat of retaliation by our foreign trading partners. The League of Women Voters urges the members of this committee and the Congress to oppose this dangerously protectionist bill.

Senator Danforth. Thank you very much.

Mr. Nield.

## STATEMENT OF GEORGE C. NIELD, PRESIDENT, AUTOMOBILE IMPORTERS OF AMERICA

Mr. Nield. Mr. Chairman, I am George Nield, the president of the Automobile Importers of America. AIA, as I will call it, is the association of major automobile importers into the United States, representing nine European manufacturers and seven Japanese manufacturers.

Mr. Chairman, AIA is strongly opposed to domestic-content legislation, as you might expect, but our opposition is shared by a broad agricultural, business, consumer, and even labor interests. In addition, the press and the public at large are becoming increasingly aware of the threat posed by this legislation.

I have attached to my statement a list of significant organizations, and newspapers, and magazines that have gone on record against automotive protectionism, and there are many more. This list is not comprehensive.

In the face of what seems to be almost universal opposition, what claims are being made in support of the bill?

One contention by the United Auto Workers is that passage of S. 707 would increase the investment in the United States by foreign auto makers and thus create jobs, but this is simply wishful thinking. The reality is that passage of this bill would discourage rather than encourage such new investment. Both Honda and Nissan, with substantial investments and substantial employment in vehicle manufacturing plants in this country have testified before the Congress that it would actually jeopardize the viability of these existing plants.

It would seem that the United Auto Workers has pushed for enactment of S. 707 in order to reestablish the virtual monopoly it once enjoyed on labor that goes into building cars sold in the United States. With this type of monopoly, the union negotiators could then demand even further concessions in wages and benefits, which I should point out are already double those of other U.S. manufacturing workers.

But it is the American consumers who must pay for these increases in the form of even higher new car prices. The so-called voluntary-restraint arrangement, the VRA, has been in place for more than 3 years, and in this period we have an almost textbook illustration of the cost of quotas to consumers. Millions of moderate income Americans can simply no longer afford to buy a new car, something rapidly becoming a luxury and available only to a few. And it should not be surprising. It is simply the law of supply and demand in action.

Quotas, whether voluntary like the VRA, or mandatory like the domestic-content bill, have the same effect. They push up prices! With greatly reduced import competition. Detroit manufacturers have been free to increase their prices substantially. Since the VRA went into effect, the average new-car price has soared by 35 percent, which is double the Consumer Price Index, and it rose over $600 in the last year alone.

A recent assessment of domestic-content legislation in a letter to the Senate signed by 100 of the Nation's leading economists, including three Nobel laureates, states that S. 707 can only lead to long-term reductions in economic growth, employment, and consumer welfare.

These distinguished economists also pointed to the danger of, and I quote: "substantial economic and political losses resulting from a potential breakdown in the world economic relationships that have been so laboriously fashioned since World War II."

In conclusion, Mr. Chairman, S. 707 is watershed legislation which would set the United States probably irreversibly on the path of protectionism, with a keystone industry wrapped in a protective cocoon. It would be an acknowledgment that a basic American industry has lost its will to compete in today's world and is willing to accept a position of permanent inferiority.

The committee should consider the high price that American consumers, farmers, and manufacturers of exports would have to pay for passage of this bill, as well as the economic and political damage to America's relations with the rest of the world.

In that light alone, it is impossible to justify this legislation, and to protect an industry enjoying all time record profits would be completely irrational.

Thank you.

[The statement follows:]

## STATEMENT OF GEORGE C. NIELD, PRESIDENT, AUTOMOBILE IMPORTERS OF AMERICA, INC.

Mr. Chairman and members of the Committee, I am George C. Nield, President of the Automobile Importers of America, Inc. (AIA). AIA is the association of major automobile importers in the United States, representing nine European manufacturers and seven Japanese manufacturers. A list of our members is attached as Appendix 1.

As we told your Committee in testimony submitted in 1982, AIA strongly opposes domestic content legislation. More important, agricultural, business, consumer, and even labor interests, as well as the press and the public at large, are increasingly aware of its destructiveness. Testimony in the House of Representatives last year, and testimony which has been and will be presented to your Committee regarding S. 707 reflects almost universal opposition. In fact, a wide-ranging coalition of 100 significant organizations has called on the Senate for the defeat of S. 707. In Congressional testimony, the UAW and the AFL-CIO stand alone in urging passage of this bill.

S. 707 is touted as a "jobs bill" and as a "fair practices" bill. In fact, it is neither. More important, it would be a disaster for the American consumer.

My testimony will address the following four points: (1) domestic content legislation is a special interest, anti-consumer proposal; (2) domestic content legislation will decrease employment; (3) domestic content legislation represents bad trade policy; and (4) there is no justification for continued protection of the domestic auto industry from import competition.

### I. DOMESTIC CONTENT LEGISLATION IS A SPECIAL INTEREST, ANTI-CONSUMER PROPOSAL.

*(a) S. 707 is designed to achieve a "labor monopoly" for a single special interest group, but the benefits will be minor and short-term.*—The UAW claims that S. 707 will save or create a million jobs in both the automobile and related industries. That is nonsense. This claim wildly exaggerates any possible benefit to auto workers. It wrongly assumes that enactment of S. 707 will attract new plant investment by foreign manufacturers, that it will not provoke retaliation or imitation by other countries, and that it will not reduce foreign purchases of U.S. exports. In fact, S. 707 would create few automotive jobs, and any employment gains would be short-term.

The UAW may be pushing for enactment of S. 707 in order to reestablish the virtual monopoly it has enjoyed on the labor that goes into building cars sold in the United States. With this monopoly it can demand further increases in U.S. automotive wages and benefits—which are already far higher than those of other manufacturing workers. One of the historical and continuing fundamental problems facing the Detroit manufacturers is the astronomical wages paid to its workers relative to other manufacturing workers in the United States. According to the U.S. Department of Labor's Current Wages & Developments for September, 1983, the Chrysler settlement package will raise Chrysler's wage-and-benefit cost about 29 percent by October, 1985, to $27 per hour, from $21 per hour. Current wage and benefit costs are approximately $22 per hour for GM and $23 per hour for Ford according to 1983 company annual reports. These levels are likely to be increased as a result of contract negotiations beginning in July. In fact, the current UAW war-cry is "restore and more in '84." Obviously, the cost of these wages is being borne by consumers in the country who must pay for increasingly high-priced automobiles.

If this legislation is enacted, it will reduce significantly competitive restraints on UAW wage demands and encourage the Detroit manufacturers to yield to these demands. The result will be an increase in the price of automobiles that will undermine the market recovery for automobiles that began last year. Thus, the result of enactment of S. 707 would be to renew the "sticker shock" from which consumers are only now recovering and to reduce demand for both domestic and imported automobiles.

In short, any employment gains produced by S. 707 would be minor and temporary. In the long run, this legislation would hurt the Detroit companies and reduce their employment.

*(b) Automotive import restrictions have made cars unaffordable to many new car purchasers.*—The so-called "Voluntary Restraint Arrangement" (VRA) urged by the Administration on sales of Japanese cars to the United States—which has been in place for more than three years—epitomizes the burden placed on consumers by trade restraints in the domestic content legislation.

The VRA has already cost U.S. consumers dearly, in terms of dollars and choice. It has caused a $2,600 increase in the price of automobiles, an increase of 35 percent according to a study by Wharton Econometric Forecasting. This is more than double the increase in the Consumer Price Index (CPI). This has made new cars unaffordable to many new car purchasers. This consumer "sticker shock" exacerbated the downturn in demand for automobiles in the early 1980's from which the automotive market finally began to recover last year. As reported by *Newsweek,* the average American needs 40 weeks of earnings today to buy a car, as compared with only 30 weeks, in 1972, a material decline in his or her standard of living.

This is hardly surprising. It is simply a question of supply and demand. Quotas—whether voluntary, like the VRA, or mandatory, like the domestic content bill, whether on autos or shoes—have the same effect: they push up prices. With greatly reduced import competition, the Detroit manufacturers were free to increase prices. In addition, the reduction in supply has changed the character of sales, with more emphasis on high-priced vehicles.

As Brookings economist Robert Crandall has pointed out, in 1983 alone, car prices rose by an average of $800. He concluded "the government has handed American consumers to them [Detroit automakers] on a platter, and they can't resist carving them up."

*(c) Domestic content legislation would further increase car prices, renewing consumer "sticker shock", and thus jeopardize the continuation of the domestic industry's recovery.*—S. 707 is, in effect, a quota bill that will reduce further the supply, and raise the prices, of motor vehicles. The August, 1982, Congressional Budget Office (CBO) analysis of the predecessor bill predicted it would reduce imports by about 1.1 million units. A drop of this magnitude will not only reduce the selection of automobiles available to the consumer but inevitably produce additional retail price increases on all cars. The CBO estimated an increase of about $500 per car.

We believe the figure is conservative. If a domestic content law had been in effect during 1983, it would have increased the price of an average automobile by an additional $800 to $1,100. There are two reasons for this. First, the limited number of imported cars would no longer exert a restraining influence on consumer prices for smaller, fuel-efficient cars produced by U.S. manufacturers. Second, the import automotive manufacturers themselves probably would have to raise prices to compensate for the loss of sales volume.

The Wharton study has forecast a 10-percent increase in the price of automobiles if domestic content legislation is enacted. It predicts that the total cost borne by American consumers from domestic content legislation would be $18 billion a year. This Committee should consider the real world effect of this sort of legislation by examining the prices of automobiles in countries with domestic content requirements such as Australia and Brazil. As stated in an October, 1983, U.S. Department of Commerce analysis, "a review of local content requirements in other countries demonstrates that these measures have not fostered the development of competitive auto industries, and could not accomplish these objectives in the United States."

## II. DOMESTIC CONTENT LEGISLATION WILL DECREASE EMPLOYMENT

U.S. export industries would be hurt by enactment of S. 707 in at least four ways. First, foreign countries now buying U.S. exports would have fewer dollars and therefore would be able to spend less on our exports. For example, a drastic reduction in Japan's $5.5 billion in auto sales to the United States will dramatically decrease Japan's ability to purchase American agricultural and high-technology exports.

Second, customers for American exports abroad would shift their purchases to non-U.S. suppliers. This occurred when the People's Republic of China shifted away from American grain producers in retaliation against increased restrictions on textile imports.

Third, under the General Agreement on Tariffs and Trade (GATT) foreign countries could demand compensation or retaliate. For example, the European Community is considering import trade restrictions on American corn gluten as a result of the imposition in this country of import restrictions on specialty steel.

Fourth, and most important, foreign countries are likely to follow the example of the United States and enact their own domestic content legislation on products like aircraft that would discriminate against U.S. exports.

S. 707 would, in effect, act as a quota on motor vehicle imports. If such legislation were enacted, not only would consumer prices increase, but our trading partners would follow suit, restricting American exports of agricultural goods, computers, airplanes and other manufactured goods. Thus, S. 707 threatens a multiple disaster for U.S. consumers, workers, farmers and other exporters. It could prove to be the step which triggers a massive international trade reaction that could wipe out and reverse recent progress towards world economic recovery.

*(a) The agricultural community has indicated that S. 707 would cause retaliation against farm products and cost agricultural jobs.*—American agriculture is particularly vulnerable to such international trade reactions. One of every three acres of U.S. farm land is planted for export. Exports of American agricultural products total over $35 billion annually. Twenty-seven states have asgricultural exports of over $500 million annually, including: Kansas, Missouri, Washington, Kentucky, South Dakota, Louisiana and Wisconsin, among others. A list of the leading agricultural export states is attached as Appendix 1.

It should come as no surprise, therefore, that the agricultural community has been uniform in its opposition to the domestic content bill. The American Farm Bureau, in a March 22, 1984, letter to the full Senate stated that:

"We believe that S. 707 would be viewed by our major trading partners as outright protectionist, and it would invite retaliatory measures by them."

"If this should occur, exports of farm commodities and products which amount to $35 billion annually are likely targets."

Similarly, in a December 13, 1983, letter to the Senate, the National Grange and fourteen other agricultural groups stated:

"As a proposal which would clearly violate the General Agreement on Tariffs and Trade and other of our international agreements and obligations, S. 707 would almost certainly bring retaliation or demands for compensation which would greatly damage our already declining agricultural exports."

Secretary of Agriculture Block has stated with respect to domestic content legislation that:

"Retaliation could be expected, particularly from the European Community and Japan, which together bought 13.8 billion dollars of U.S. agricultural products in 1982, over 38 percent of our total exports of agricultural products in that year."

*(b) The manufacturing community has indicated that S. 707 would cause retaliation against exports of manufactured goods and cost manufacturing jobs.*—The overall impact of enactment of domestic content legislation could be even more severe on exporters of manufactured goods. In 1983, the value of manufacturers' shipments produced by export and export-related industries totalled over $270 billion and supported employment for 4.6 million workers, nearly 5 percent of total employment in this country—in short, one out of 20. Some of the states whose economies are heavily dependent upon exports include: Missouri, with $4.8 billion in manufactured exports annually supporting 48,000 export jobs; Washington, with $10.7 billion in manufactured exports annually supporting 80,000 export jobs; Wisconsin, with $6.6 billion in manufactured exports annually supporting 69,000 export jobs; South Carolina, with $4.2 billion in manufactured exports annually supporting 46,000 export jobs; Virginia, with $5.1 billion in manufactured exports annually supporting 46,000 export jobs; Louisiana, with $7.4 billion in manufactured exports annually supporting 25,000 export jobs; Michigan, with $15 billion in manufactured exports annually supporting 142,000 export jobs; and New Jersey, with $8 billion in manufactured exports annually supporting 94,000 export jobs.

If the quota sought by the UAW with respect to automotive products is established, no doubt other countries will follow suit with respect to industries such as aircraft, thus cutting off U.S. export products and eliminating U.S. jobs. It is for these reasons that the manufacturing community in this country is strongly and understandably opposed to domestic content legislation.

*(c) Foreign auto manufacturers have indicated that S. 707 would discourage investment in the United States and endanger the viability of existing plants, thus threatening their workers' jobs.*—Foreign automotive manufacturers have already made substantial investments, totalling nearly $3 billion, in the United States, and further investment is under way. This includes investments by such companies as Volkswagen, Honda, Nissan, Saab, Toyota, Daimler-Benz, Volvo and Renault. A chart listing the value and location of these investments is attached as Appendix 2.

These investments have taken place because both the laws and policies of the United States give domestic and foreign firms the necessary confidence that our climate for trade and plant investments will remain relatively favorable. These investments are based on sound economics, rather than legislation.

Enactment of S. 707 would destroy this favorable climate and would have an adverse impact on foreign automotive investment in the United States. Nissan and Honda, for example, both testified that the viability of their U.S. operations would be threatened if domestic content legislation were enacted. Obviously, if this happens, the employment created by these facilities would be jeopardized.

*(d) Objective analyses confirm that S. 707 is a "jobs loss" bill.*—Employment analyses of domestic content legislation by the CBO, the Department of Commerce, Wharton and others have all confirmed that S. 707 would be a "job loss" bill. First, any job gains produced by enactment of domestic content legislation would, according to these analyses, produce only a fraction of the jobs claimed by the UAW. Second, by cutting off access to the U.S. auto market, domestic content legislation would weaken the capability of these countries to purchase American exports, thus affecting export industry employment in the United States. Third, by virtue of the fact that domestic content legislation would blatantly violate our international agreements, it would encourage imitation and retaliation by our trading partners and produce reductions in export industry employment. Finally, by reducing the number of imported vehicles available in the United States, import auto industry employment, which now totals 165,000, would decline. In all, these studies predict employment losses ranging from 66,000 to 390,000 jobs over the next six years.

The Wharton study indicates that for every job created in the automotive sector by domestic content legislation five jobs would be lost elsewhere in the American economy, with the ratio increasing to 7.3 jobs lost by 1991. Chase Econometrics has estimated that 390,000 Americans would be put out of work as a result of trade retaliations that would follow passage of this bill. The Department of Transportation estimates that between 50,000 and 100,000 jobs would be lost, including 60,000 to 93,000 port jobs. Similarly, The Heritage Foundation predicts that 90,000 port jobs would be lost and 80,000 import auto dealer jobs would be lost due to domestic content legislation even without the effects of retaliation against our export industries.

## III. DOMESTIC CONTENT LEGISLATION REPRESENTS UNSOUND AND COUNTERPRODUCTIVE TRADE POLICY

*(a) International trade is important to the United States.*—The importance of international trade to our country should be clear. Exports and imports of goods and services totalled 21 percent of our gross national product in 1983, nearly double the 12 percent level of 1972. Exports of American goods and services totalled $347 billion in 1982, of which American agricultural exports were nearly $40 billion. The United States, despite its recent serious merchandise trade deficit, has been, overall, a trade winner. In all but three years since the 1948 GATT, our trade in goods and services has been in surplus.

The current merchandise trade deficit has been offered as a justification for the abandonment of the GATT system and the enactment of protectionist legislation such as S. 707. This argument is false, not only because it ignores trade in services but also because petroleum imports are mainly responsible for the merchandise trade deficit. Only once in the last 18 years has the United States had a merchandise trade deficit after discounting petroleum imports. The increasing level of our export activity, and our increasing dependence on international trade, should make it obvious that our stake in an open trading system is substantial. As a matter of trade policy, America's best interests lie in preserving and enhancing the openness of that system, not in destroying it.

*(b) S. 707 would harm our ability to export.*—S. 707 clearly would violate the "national treatment" and anti-quota provisions of the GATT, as well as treaties of Friendship, Commerce and Navigation with such countries as Italy, Japan and West Germany. Enactment of S. 707 would declare to the world in no uncertain terms

that the United States is fully prepared to repudiate its international obligations and to disregard the rule of law in international commerce. Inevitably, in response other countries would abandon the principle of liberal trade and would resort to expedient devices for short-term commercial benefits that would harm our ability to export. In a recent letter written to the Senate, 100 of our nation's leading economists, including three Nobel Laureates stated:

"This policy response can only lead to long-term reductions in economic growth, employment and consumer welfare . . . [P]olicy should be oriented toward expanding economic growth and incomes and employment in general and providing for individuals forced out of work through no fault of their own. It should not be directed toward providing special restrictions to benefit particular sectors of the economy at the expense of the nation as a whole."

Domestic content legislation is based upon the false premise that our trade problems in a particular sector can be solved by closing the U.S. market to imported goods. It represents an intellectually bankrupt policy which will result in a proliferation of trade restrictions like that which occurred in the early 1930s and which helped to deepen and prolong the Depression. It is like stumbling backward into the future.

From a policy perspective, S. 707 is watershed legislation. Passage of this bill would set the United States, probably irreversibly, on the path of protectionism, with a keystone industry wrapped in a protective cocoon. It would be an acknowledgement that a keystone American industry has lost its will to compete in the world of today and is willing to accept the prospect of sliding into a position of permanent inferiority as a part of industrial society. In short, S. 707 would be disastrous trade policy.

## IV. THERE IS NO JUSTIFICATION FOR CONTINUED PROTECTION OF THE DOMESTIC AUTO INDUSTRY FROM IMPORT COMPETITION

*(a) Imports are not the cause of past difficulties.*—Automobile imports from Europe and Japan are fairly traded. Past allegations of unfair trade practices have not been substantiated, and no formal complaint of an unfair trade practice involving imported automobiles has been filed in more than seven years.

Not only are they fairly traded, but imported automobiles have been found not to be the major cause of the past difficulties encountered by the domestic automobile industry. In 1980, the U.S. International Trade Commission (USITC) determined that the major cause of these difficulties was the overall decline in automotive consumption, from which the domestic auto industry has now recovered. Not only were imports not the cause of past difficulties, as the USITC found in 1980, but imports presently are: (a) not increasing, and (b) not the cause of any difficulties to the domestic industry. If Detroit has any present difficulty, it is its own inability to satisfy demand. As indicated recently in Automotive News, "auto makers are finding that some extremely popular models are being snapped up faster than manufacturing facilities can turn them out . . . ." It reported last week that domestic new car inventory has dropped from 59 days supply in April to 53 days supply in May. This is down from 66 days supply in May, 1982. As to the future, Lee Iacocca stated last month that 1984 "is going to be our golden year".

*(b) To the extent that the industry "playing field" is uneven, it is tilted against Japan.*—The proponents of domestic content legislation claim that past auto industry difficulties are the result of an "uneven playing field" with respect to the comparative tax burden borne by Japanese as opposed to American auto manufacturers. The facts simply do not bear this myth out. Japanese auto manufacturers actually bear a heavier tax burden than do domestic manufacturers.

*(c) The domestic industry has recovered, as evidenced by 1983 sales, inventory and market share and projected future market share.*—1983 represented a turn-around year for the domestic auto industry. Total new car sales were 9.2 million in 1983 as compared with 7.9 million in 1982, with domestic new car sales increasing from 5.8 million in 1982 to 6.8 million in 1983. The market share of the domestic manufacturers in 1983 was 74 percent, up from 72 percent in 1982. In short, in both a quantitative and a relative sense, the Detroit manufacturers gained in the U.S. market in 1983.

The 1983 recovery is merely the first step in the overall recovery and growth of the domestic auto industry. There is a consensus among industry analysts not only that the domestic industry has recovered but that it will do even better in terms of sales, market share and profits, due to new-found production efficiency and growth in market demand for domestic vehicles.

In short, without enactment of any legislation, and before S. 707 could even be implemented, the domestic industry's sales and share of the automotive market are expected to continue to grow substantially.

*(d) The domestic industry's profitability has not only been restored, it is at all-time record levels.*

*1. 1983 Big Three profits.*—As indicated on the chart attached as Appendix 8, 1983 profits indicate that the domestic industry's profitability as a whole has been restored. For 1983, Detroit posted $6.15 billion in profits, an industry record. Detroit's profitability can best be summed up by Mr. Iacocca who stated, with respect to Chrysler's profitability, that "the facts don't lie."

*2. 1984 Big Three first quarter profits.*—Perhaps more significant, as indicated in Appendix 3, Big Three first quarter profits set new records. Chrysler announced on April 19, 1984, its highest first quarter profits in its 60 year history. In fact, its profits for the first quarter of 1984 were $706 million, which is more than the highest annual profit in its history. During the same period, Ford profits rose from $211 million to $897 million, an all-time Ford record, and General Motors profits rose from $653 million to $1.614 billion, another all-time record. Overall, the industry's first quarter profits rose from $970 million in 1983 to $3.22 billion in 1984, nearly double the previous record of $1.83 billion set in 1979.

*3. Executive bonuses.*—Another indicator of Detroit's recovery is the phenomenal bonuses paid to its executives in 1983. Reportedly, 1983 salaries and bonuses for the four top officials at General Motors, Ford, Chrysler and AMC totalled $10,049,438 including stock options, or an average of $2,500,000 per executive. According to *Automotive News'* April 30, 1984 issue, Chrysler directors will ask shareholders at their annual meeting on June 7 to authorize a bonus formula that could add up to $51.6 million for 1983.

*(e) The domestic industry's recovery has benefited its workers through increased employment.*—Employment in the domestic auto industry has increased by approximately 190,000 since its low point in 1982. Specifically, employment has increased from the November 1982 low of 467,200 workers to 656,300 workers in December 1983. In light of the reduced break-even points achieved by the domestic manufacturers, which dropped by 25 percent from 12.2 million cars and trucks in 1980 to 9.1 million cars and trucks in 1983, it would appear that something approaching full employment with respect to present capacity has been achieved. The March 9, 1984, Bureau of Labor Statistics report on employment and earnings indicates that as of January 1984, the auto industry unemployment rate decreased from 19 percent in January 1983 to 8.5 percent in January 1984, well below the national unemployment rate for all manufacturing workers of 11.2 percent. Employment would have increased even more if the Detroit manufacturers had chosen to meet production demands by hiring additional workers rather than by increasing overtime.

## V. CONCLUSION

Domestic content legislation has never been justified on legal or economic grounds. An ever growing number of businesses and consumer interest groups have denounced S. 707. The UAW and the AFL-CIO are increasingly isolated. Their proposal offends logic, law and the best interests of both the domestic automotive industry and the nation as a whole. It is no more than an attempt to create a "labor monopoly" with respect to the production of automobiles sold in this country. It would be a multiple disaster for American consumers, agriculture and manufacturing exporters and their workers. It is time that this Committee, and the Congress as a whole, abandon this destructive proposal.

APPENDIX 1.—*Top 30 States exporting agricultural products against whom retaliation will occur if S. 707 is enacted*

| *State* | *1982 Value* |
|---|---|
| 1. Illinois | $3,300,000,000 |
| 2. Iowa | 3,000,000,000 |
| 3. California | 2,800,000,000 |
| 4. Texas | 2,600,000,000 |
| 5. Minnesota | 1,900,000,000 |
| 6. Nebraska | 1,800,000,000 |
| 7. Indiana | 1,600,000,000 |
| 8. Kansas | 1,600,000,000 |
| 9. Missouri | 1,400,000,000 |
| 10. North Dakota | 1,300,000,000 |
| 11. Arkansas | 1,300,000,000 |

| *State* | *1982 Value* |
|---|---|
| 12. North Carolina | 1,200,000,000 |
| 13. Ohio | 1,100,000,000 |
| 14. Washington | 946,000,000 |
| 15. Mississippi | 787,000,000 |
| 16. Oklahoma | 781,000,000 |
| 17. Michigan | 752,000,000 |
| 18. Kentucky | 731,000,000 |
| 19. Georgia | 706,000,000 |
| 20. South Dakota | 655,000,000 |
| 21. Louisiana | 626,000,000 |
| 22. Colorado | 612,000,000 |
| 23. Wisconsin | 592,000,000 |
| 24. Montana | 559,000,000 |
| 25. Idaho | 551,000,000 |
| 26. Florida | 586,000,000 |
| 27. Tennessee | 590,000,000 |
| 28. Alabama | 481,000,000 |
| 29. Oregon | 423,000,000 |
| 30. Arizona | 404,000,000 |
| Subtotal | 35,700,000,000 |
| Total United States | 39,100,000,000 |

### APPENDIX 2.—*Investments in the United States by foreign automotive companies*

[In millions]

| *Company and location* | *Investment* |
|---|---|
| Volkswagen: | |
| Westmoreland, PA | $600 |
| South Charleston, WV | |
| Fort Worth, TX | |
| Honda: | |
| Marysville, OH | 490 |
| Marysville, OH (parts plant) | 15 |
| Alamanc County, NC (power equipment) | 10 |
| Marysville, OH (motorcycles) | 65 |
| Nissan: Smyrna, TN | 660 |
| Toyota: | |
| Long Beach, CA | 50 |
| Freemont, CA | 150 |
| Daimler-Benz: Portland, OR. | 65 |
| Volvo: | |
| Chesapeake, VA (bus facility) | 97 |
| New River Valley, VA | |
| Ogden, UT | |
| Orrville, OH | |
| Renault: | |
| Detroit, MI | 600 |
| Kenosha, WI | |
| Toledo, OH | |
| Allentown, PA (Mack Truck) | |
| Hagerstown, MD (Mack Truck) | |
| Middletown, PA (Mack Truck) | |
| Saab: Orange, CT (bus facility) | 10 |
| Total | 2,812 |

### APPENDIX 3.—*GM, Ford, Chrysler, and AMC Profits (Losses) by Quarter—1978-84*

[Dollars in millions]

| | GM | Ford | Chrysler | AMC [1] | Total |
|---|---|---|---|---|---|
| 1978: | | | | | |
| I | $870 | $466 | $(120) | $3 | $1,219 |

| | GM | Ford | Chrysler | AMC[1] | Total |
|---|---|---|---|---|---|
| II | 1,106 | 540 | 31 | 6 | 1,683 |
| III | 528 | 301 | (159) | 26 | 696 |
| IV | 1,004 | 282 | 43 | 26 | 1,355 |
| Total | 3,508 | 1,589 | (205) | 61 | 4,953 |
| 1979: | | | | | |
| I | 1,257 | 595 | (54) | 32 | 1,830 |
| II | 1,188 | 512 | (207) | 15 | 1,508 |
| III | 21 | 103 | (461) | 11 | (326) |
| IV | 426 | (41) | (376) | 13 | 22 |
| Total | 2,892 | 1,169 | (1,098) | 71 | 3,034 |
| 1980: | | | | | |
| I | 155 | (164) | (449) | 1 | (457) |
| II | (412) | (468) | (536) | (85) | (1,501) |
| III | (567) | (595) | (490) | (85) | (1,737) |
| IV | 62 | (316) | (235) | (29) | (518) |
| Total | (762) | (1,543) | (1,710) | (198) | (4,213) |
| 1981: | | | | | |
| I | 190 | (439) | (289) | (53) | (591) |
| II | 515 | 60 | 21 | (20) | 576 |
| III | (468) | (335) | (140) | (17) | (960) |
| IV | 97 | (346) | (67) | (47) | (363) |
| Total | 334 | (1,060) | (475) | (137) | (1,338) |
| 1982: | | | | | |
| I | 128 | (302) | 150 | (51) | (75) |
| II | 560 | 205 | 107 | (69) | 803 |
| III | 129 | (325) | 9 | (31) | (218) |
| IV | 145 | (236) | (96) | (3) | (190) |
| Total | 962 | (658) | 170 | (154) | 320 |
| 1983: | | | | | |
| I | 653 | 211 | 172 | (66) | 970 |
| II | 1,040 | 542 | 310 | (79) | 1,813 |
| III | 737 | 333 | 100 | (9) | 1,161 |
| IV | 1,300 | 781 | 119 | 7 | 2,207 |
| Total | 3,730 | 1,867 | 701 | (147 | 6,151 |
| 1984: I | 1,614 | 897 | 706 | 5 | 3,222 |

[1] Prior to 1980, AMC's fiscal years ended September 30th. These data are reported here on an adjusted basis so that AMC's quarters are the same as the rest of the industry.

Senator DANFORTH. Thank you, sir.
Mr. Samuels?

## STATEMENT OF MICHAEL A. SAMUELS, VICE PRESIDENT, INTERNATIONAL, U.S. CHAMBER OF COMMERCE

Mr. SAMUELS. Mr. Chairman, I am Michael Samuels, vice president, International, of the U.S. Chamber of Commerce.

For those of you without a scorecard, I am the second Samuels, to testify today but we have different positions on this issue. The Chamber is strongly opposed to domestic content legislation. The major arguments pro and con on domestic content have been detailed during these hearings and elsewhere.

Let me restate our basic points. Not only is domestic content the wrong remedy, but it is based on the wrong diagnosis of the illness. The solution for an ailing economy is not to keep out cheaper imports or coerce foreign firms to invest here. The healing tonic is to adjust to the changing demands of a world marketplace and to ensure that the marketplace expands rather than contracts.

Someone on the last panel talked about losing our auto industry. Baloney. Today our auto industry is doing an impressive job of adjusting. It does not need a law giving domestic content protection. In fact, its modernization efforts would be hurt by it.

Even more importantly, our economic prospects across the board would be damaged. We would be taxing other industries and our consumers with the cost of both protection at home and retaliation abroad. This bill would be a sure violation of the GATT.

One of the union witnesses called this a job bill. He is wrong. It is an antijob bill. Many studies have demonstrated that domestic content is a net job killer. It would preserve a job for Paul by stealing one, not only from Peter, but from his brother, too. The protection of one industry means lost opportunities for others, and, over time, lost opportunities for the protected industry, as well as seeing foreign competitors outrun it.

This is legislation not drafted for our national welfare or for one industry's welfare, but for union welfare. I would hope the U.S. Senate has a wider vision.

Of course, not all trade today is fair. We must have and enforce effective rules to minimize injurious trade distortions, but domestic content is not the correct response if there is unfair auto trading. Domestic content is simply an effort to insulate ourselves from foreign competition. Therefore, by its very nature it is self-defeating. Where charges of unfairness can be substantiated, we have trade laws that provide for countervailing duties.

The thrust of a sound national policy must be to support a market environment conducive to improving competitiveness, for example, reducing the Federal deficit through spending cuts, minimizing the tax burden on investment, savings and earned income, market incentives for R&D, encouraging the education and retraining of U.S. workers for tomorrow's jobs, and implementing a trade policy that expands rather than contracts international commerce.

The Chamber did not arrive at its position on domestic content until we had carefully reviewed the interests of our over 200,000 member companies, associations, and Chamber of Commerce members. We had to be sure the majority was opposed. We have determined that this is clearly the case.

To stress this point, a survey of small businesses has just been completed for the Chamber's magazine, "Nation's Business." This survey, not yet published, samples over 1,000 chief executive officers of small business firms, those employing between 40 and 500 workers in all parts of the country. It shows that some 77 percent oppose domestic content. Only 15 percent are in favor of it. In the Midwest, my own home base, in the heart of domestic auto production, the percentage of those opposed is even higher, 84 percent.

The full story will be detailed in the magazine's July issue. I would be pleased to make this available to the committee as soon as it is out.

In conclusion, we urge this committee to oppose S. 707.

Thank you for your consideration.

[The statement follows:]

## STATEMENT OF MICHAEL A. SAMUELS, FOR THE CHAMBER OF COMMERCE OF THE UNITED STATES

I am Michael A. Samuels, vice president, international, of the United States Chamber of Commerce.

The U.S. Chamber of Commerce is opposed to the Fair Trade in Automotive Products Act (S. 707), otherwise known as the automobile domestic content legislation, because it would damage the U.S. economy and undermine our trade policies. Our position was established not due to blind commitment to free trade ideals, but only after careful consideration of the interests of the Chamber membership and the U.S. economy as a whole.

Declining production and employment are not merely academic considerations to our members. Their businesses are affected directly by government policies that bear on our economic growth. If the domestic content bill before the committee held out reasonable prospect for boosting long-term growth in the economy, or even in the auto sector, our objections to it might be limited to its trade policy implications. As it is, however, the legislation will cause more damage than benefits to the economy and to the auto sector.

We made essentially the same assessment of domestic content legislation in late 1982. And it is even more valid today than it was at that time. Recovery in the U.S. economy is evident, with total employment and personal income significantly ahead of the levels 18 months ago. More specifically, the auto industry is back in the black with sales, production and employment all on the upswing.

A great deal of analysis on the pros and cons of the bill already has been presented to the committee during these hearings. Accordingly, in this statement, I will just highlight the major arguments that form the basis of the Chamber's concern with the proposal.

### RESTORING AMERICA'S INDUSTRIAL COMPETITIVENESS

The domestic content proposal ostensibly is motivated by a concern with the ability of the U.S. economy to provide jobs for American workers. This is a legitimate concern and one we share fully. Where we differ is in the best way to deal with it. The answer is not to protect one segment of the economy at the expense of others. That is just robbing Peter to pay Paul, and at greater expense to Peter than benefit to Paul. The reality of the times is that our economic welfare depends upon how well our industries are able to compete internationally. The focus of national policy must be to support an environment that enhances our competitive position across-the-board. Important elements of a supportive environment include:

Reducing the federal deficit through cuts in spending in order to lower the cost of capital to U.S. industry and agriculture.

Minimizing the tax burden on investment, savings and earned income.

Market incentives for research and development.

Implementation of a trade policy that expands rather than contracts international trade.

Enforcement of laws to defend U.S. exports against foreign subsidies and other unfair practices.

Encouragement of education and training measures to equip U.S. workers with the skills to adapt to changing job requirements.

There are positive legislative proposals that would foster an environment to strengthen our industries, for example, to facilitate research and development joint ventures. It is to these proposals that national policy should be directed. It should be noted too that our international competitiveness remains impaired by the continued high value of the dollar relative to other trading currencies. Worse still, U.S. exports have dropped precipitously due to sluggish demand in many of our traditional markets, particularly in developing countries hard hit by financial problems. Protectionist action would only exacerbate this key problem.

### EMPLOYMENT EFFECTS

Since the domestic content legislation was first introduced over two years ago, numerous studies, government and private, have demonstrated that the net effect would be less jobs in the economy rather than more. While such studies have been frequently cited—the Congressional Budget Office, Wharton Econometric Forecasting, Chase Econometrics and others—perhaps the most telling and proven statistic has been relatively neglected. That is that in the past ten years employment in the United States has increased by thirteen million while in the same period, jobs in the European community have declined by some three million. Nevertheless, in support of domestic content, the policies of some of the members of the European Community to protect basic industries are often cited as the direction to be followed by the United States. But, it would appear that the results justify the adherence by the United States to more open trade policies.

The fact remains that any new jobs created by domestic content requirements would be more than offset by job losses in other sectors of the economy. The domestic content bill is promoted as a job-creating program; yet, it would injure the very industries where employment growth has been most evident. Between 1977 and 1981, four out of five new manufacturing jobs came from exporting industries. One in three farm acres is used to grow food for export while one in seven manufacturing jobs depends on exports. These figures illustrate the central truth that is violated by domestic content policies, namely: we are in the era of the global economy and the ability to compete in world markets is the measure of our economic strength.

### IMPLICATIONS FOR GATT

A key consideration must be that enactment of the bill could trigger a trade war. S. 707 violates the national treatment and anti-quota provisions of Articles III and XI of the General (GATT), as well as various U.S. treaties of Friendship, Commerce and Navigation with such countries as Japan, West Germany and Italy. Canada, our number one trading partner, is already on record protesting the bill.

The GATT system is not perfect but does set a common framework for the "trade by rules" that has supported the tremendous growth of international trade since 1945. With so many national economies under serious economic pressure due to the recent recession and debt obligations, the temptation to restrict imports further is strong. The enactment of a domestic content law by the United States, the founder of the GATT system and the major trading power, would signal the breakdown of the system, encouraging others to protect themselves with new trade and investment restrictions.

It is worth remembering that approximately one third of U.S. exports of manufactured products are to U.S. subsidiaries in foreign countries. These exports would be critically vulnerable to retaliatory domestic content initiatives.

### FOREIGN TRADE BARRIERS

Some propose this legislation in response to what is a very serious problem—the proliferation of trade barriers in foreign markets, particularly against the exports of our most competitive industries. This is indeed an urgent problem. But S. 707 is the wrong solution. As foreign countries endeavor to build up their own technologies, there is a temptation to discourage import competition for the favored industries. Japan's past policies toward its semiconductor industry have been cited as a case in point. Inasmuch as export markets, with the economies of scale they entail, are vital for the optimum development of sophisticated technologies, such barriers must be eliminated.

The GATT and U.S. trade laws offer a positive means of resolving trade problems. At the same time, governments should organize for another major round of negotiations that would expand international rules to sectors and practices not adequately covered at present. And let us not forget that the private sector can do much in a constructive way to assist in this process. One example here is the work of the Japan-U.S. Businessmen's Conference, a bilateral organization of business people from Japan and the United States, administered by the U.S. Chamber of Commerce and the Japan Federation of Economic Organizations (Keidanren). In 1983, among other recommendations for resolving U.S.-Japanese economic problems, the Conference proposed a series of bilateral dialogues aimed at eliminating friction on an industry-by-industry basis. Sectoral working groups have already been set up for the electronics and forest products industries and preliminary results have been very encouraging in terms of specific agreements, such as improving access to Japanese markets. The principle at work here is simple: with all the focus on the governmental side of the negotiating process, it is important not to overlook the contribution industry itself can make toward the resolution of trade problems.

The reciprocity legislation pending in Congress also would help strengthen our ability to redress unfair bilateral trade practices. Congress should encourage the Administration to enforce U.S. trade laws and rights under international agreements and should support the Administration particularly in its ongoing effort to reduce Japanese trade barriers of special relevance to American exporters. The breakthroughs on citrus and beef exports are encouraging, but much more remains to be done.

The Chamber recognizes that foreign restrictions hurt American exports and workers. Unless the United States is prepared to back its negotiating position with action, these departures are likely to persist.

### DOMESTIC POLICY PROBLEMS

Foreign barriers are not the only problem for U.S. industrial competitiveness in world markets. Domestic obstacles also contribute to our competitiveness problems. These include: unnecessary regulatory burdens, for example, under the Foreign Corrupt Practices Act; the imposition of export controls in ways that undermine our reputation as a reliable supplier; the high cost of capital; high labor costs; an inadequate supply of labor with the most needed skills; the high cost and limited availability of export financing; slow productivity growth in past years; and inadequate worldwide marketing efforts.

### DOMESTIC INDUSTRY AND INTERNATIONAL COMPETITION

An important failing of the legislation is that it ignores the evidence that many U.S. industries are fully capable of competing on a worldwide basis. Today, industry sales and profits are robust, and prospects for continued revival are good. But the domestic content approach implies that the U.S. can never compete effectively with imports and needs permanent trade protection—which is exactly what domestic content legislation is. This assumption that we cannot compete is a dangerous and groundless one, when the realities of our long-term trade and economic prospects are considered.

The U.S. economy has several sectors showing strong trade performance, including chemicals, agriculture, capital equipment and high technology industries. By the same token, modernization should restore some of our more traditional industries, such as autos and steel, to an important role in world markets. And even as the U.S. has run a large deficit on its auto trade, we have enjoyed a surplus in the trade in auto parts.

Meanwhile, the U.S. auto industry has responded positively and forcefully to the need to develop the highest level of technological performance. Unfortunately, the domestic content approach to industrial production evades the critical issue of encouraging innovation and modernization in all industries.

### PRICE EFFECTS

The domestic content requirments of foreign countries have resulted in auto prices far above world market levels. For example, an 85 percent domestic content requirement in Australia has resulted in high auto production costs. While auto imports are limited to no more than 20 percent of total sales, they face a tariff of between 35 and 57.2 percent to equalize the domestic price levels. In South Africa, the tariff on imported cars with no South African-made components is a flat 100 percent. These and other examples reinforce the conclusions of the Congressional Budget Office and others that U.S. auto prices would increase by at least 10 percent if the legislation were enacted.

### SUMMARY AND CONCLUSIONS

We are in the era of the global economy. Economic interdependence is an established fact. The economic prospects of the United States and all other countries are determined by how well they are able to compete internationally. Beyond rules to ensure fair trade practice, policies to insulate industries from foreign competition and the need to operate globally are self defeating. Domestic content ignores these basic realities.

On specific grounds, the domestic content bill would spark a trail of negative consequences.

It would harm the American consumer who has already seen the average cost of a new car increase by more than one third since the voluntary quotas went into force.

It would cost workers in other industries their jobs as port traffic drops, import dealers lose ground and retaliation against export industries gets underway.

It ignores the remarkable recovery underway in the U.S. auto industry as its recovery program gets into stride.

It would trigger retaliation and encourage other countries to adopt similar measures, all with the net effect of further slowing down world economic activity. Because the United States is still the pacesetter for international economic behavior, the repercussions of such a major departure from accepted practice would be disastrous to us and the rest of the world.

Senator DANFORTH. Thank you, sir.
Mr. Johnston?

## STATEMENT OF ERNEST B. JOHNSTON, PHILLIPS PETROLEUM CO., ON BEHALF OF THE NATIONAL FOREIGN TRADE COUNCIL

Mr. JOHNSTON. Mr. Chairman, my name is Ernest Johnston. I work of the Phillips Petroleum Co., and I am appearing this morning on behalf of the National Foreign Trade Council, an association of over 600 U.S. companies engaged in foreign trade and investments. These companies represent about 70 percent of U.S. exports of manufactured goods and services. They are deeply concerned with the adverse effects which the local content bill would have on U.S. trade.

This legislation will damage the American economy and auto industry in several ways. Employment gains in the auto industry will be offset by job losses in other sectors of the economy. The American auto industry will be unable to utilize the lowest cost source of supply, thereby increasing the price of U.S. made automobiles. The American economy as a whole will suffer, not only because of the inflationary impact of higher auto prices, but even more importantly because adoption of domestic content legislation would trigger retaliation against U.S. exports and encourage similar buy national strategies by the principal trading nations.

In the highly unlikely event that no foreign retaliation or imitation occurred, this action would push up the value of the dollar, and we know what that means, both for exports and for imports. The inevitable result will be a reduction in U.S. exports and in domestic employment in export-related industries.

A basic premise of proposals to insulate segments of the U.S. economy from world competition is that the United States is a self-contained economic unit of such power and diversity that it can, at will, unilaterally reduce trade with other nations to achieve domestic economic objectives without significant cost to our own country.

The idea is that other countries will accept major new U.S. trade barriers without reacting. This premise is just unrealistic.

The United States is a part of an interdependent world economy. Our major trading partners purchase billions of dollars in U.S. goods and services. Exports of goods alone now account for 7 percent of our gross national product, and the export of goods alone accounts for one-fifth of our production of goods in this country.

If our trading partners add new barriers to imports in response to U.S. protectionist initiatives, the effect will be to reduce our export markets. There is a significant risk of such a response. The economies of most of our trading partners are currently afflicted by exceptionally high unemployment and slow growth, which have placed increasing pressures on governments, just as you in the Congress are feeling this kind of pressure right now to intervene to protect domestic industries.

Our trading partners have exercised a fair degree of restraint to date in imposing new trade barriers, but they will not continue to do so if the U.S. Congress enacts this bill.

For over 30 years the United States has been a leader among nations in supporting a free and open trading system. Action by Congress to foreclose indefinitely a major sector of the U.S. economy, automotive products, from international competition would not only violate GATT rules but would serve notice on the world that the United States had decided to reduce its support of the international trading system which has sustained the growth of world trade for decades. Trade growth since World War II has contributed mightily to the unparalleled increase in world and U.S. product in that period.

A fundamental problem of S. 707 is it directly violates the GATT rules. Article III of the GATT prohibits local content requirements. Article XI of the GATT prohibits quotas.

This bill is aimed primarily at Japanese auto imports. There is much speculation as to what the Japanese response would be. One option for Japan would be to just open up and swallow. A second option for Japan would be to file a formal complaint in the GATT. Since the U.S. law would surely be held to violate the GATT, Japan would be authorized to seek compensation or to impose restrictions on our exports.

While the Japanese reaction could have significant consequences for United States-Japanese trade relations, it would not in our view be correct to assess the bill solely in terms of Japan. Our major concern is that the imposition of a local content law in the United States will, through example, encourage similar restrictions abroad.

While it is difficult to estimate the number of jobs that will be lost as a result of a fresh wave of foreign protectionist restrictions, it is virtually certain to be greater than any hypothetical employment gain S. 707 might bring about. Among leading exports which would be candidates for trouble are aircraft, office equipment, electrical components, corn, wheat and soybeans.

This bill would undercut the administration's efforts to encourage trade liberalization by others. A local content bill for autos would lead to pressures on the Congress for additional Federal, local content laws. Enactment of this bill would encourage protectionist forces everywhere, open the way to a surge of trade restrictions that would restrain growth and increase unemployment throughout the world, not least of all in our own country.

We hope the committee rejects the bill.

[The statement follows:]

### STATEMENT OF ERNEST B. JOHNSTON, PHILLIPS PETROLEUM CO. ON BEHALF OF THE NATIONAL FOREIGN TRADE COUNCIL

Good morning, I am Ernest Johnston of Phillips Petroleum Company appearing on behalf of the National Foreign Trade Council, an association of over 600 U.S. companies engaged in foreign trade and investments. These companies represent about 70 percent of U.S. exports of manufactured goods and services and are deeply concerned with the adverse effects which S. 707, the "Fair Practices in Automotive Products Act," would have on trade between the United States and foreign countries.

The state of the U.S. automobile industry is considerably improved from the time when the legislation was first introduced in Congress. We share with proponents of the bill a desire for continued vigor in the auto industry and a continued recovery in auto industry jobs, but we believe that insulating the industry from foreign competition will not achieve these objectives; indeed, the consequences of this protectionist legislation will be to damage the American economy and the auto industry in these ways: Overall, employment gains in the auto industry will be offset by job losses in other sectors of the economy;

The American auto industry will be unable to utilize the lowest cost source of supply, thereby increasing the price of U.S.-made automobiles and placing the American auto industry at a competitive disadvantage in the international market place;

The American economy as a whole will suffer, not only because of the inflationary impact of higher auto prices, but, even more importantly, because adoption of domestic content legislation would severely damage trade relations with our principal trading partners, trigger retaliation against U.S. exports and encourage similar "buy national" strategies by the principal trading nations. In the highly unlikely event that no foreign retaliation nor imitation occurred, this action would nonetheless push up the value of the dollar. The inevitable result will be a reduction in U.S. exports and in domestic employment in export-related industries.

Studies by the Congressional Budget Office and other federal agencies and private organizations have documented the effect of the bill on the cost of automobiles and on employment, both in the automotive manufacturing and automotive import sectors. Since the National Foreign Trade Council is primarily concerned with the international impact of the bill, I will focus on the consequences of the act for U.S. foreign trade and investment.

A basic premise of proposals to insulate segments of the U.S. economy from world competition is that the United States is a self-contained economic unit of such power and diversity that it can, at will, unilaterally reduce trade with other nations to achieve domestic economic objectives without significant costs to our own country. A corollary is that other nations will refrain from imposing new restrictions on imports, while the United States introduces major new trade barriers.

This premise, of an economic "Fortress America," is both unrealistic and dangerous today for two reasons. The United States is a part of an interdependent world economy. Our major trading partners purchase billions of dollars in U.S. goods and services—export of goods alone now account for seven percent of our gross national product. If our trading partners add new barriers to imports in response to U.S. protectionist initiatives, the effect will be to reduce our export markets, with adverse consequences for U.S. employment and economic growth. And we think there is a significant risk of such a response: the economies of most of our major trading partners are currently afflicted by exceptionally high unemployment and slow growth, which have placed increasing pressures on governments to intervene to protect domestic industries. Our trading partners have exercised a fair degree of restraint to date in imposing new trade barriers, but they cannot be expected to continue to do so if the United States enacts legislation to restrict imports in such a major economic sector as the automobile industry.

Second, for over 30 years the United States has been a leader among nations in supporting a free and open international trading system. Our country was one of the architects of the GATT in 1947. In the Tokyo Round of multilateral trade negotiations, in the GATT Ministerial meetings and in the Economic Summits, the United States reaffirmed its commitment to the preservation of open markets. United States' leadership is essential for other nations' support for a free and open international trading system. Action by Congress to foreclose indefinitely a major sector of the U.S. economy—automotive products—from international competition would not only violate GATT rules, but would serve notice on the world that the United States had decided to reduce its support of the international trading system, which has sustained the growth of world trade for decades. Trade growth since World War II has contributed mightily to the unparalled increase in World (and U.S.) total product in that period.

Let me now address more specifically the consequences of S. 707 for trade relations with other nations. A fundamental problem of S. 707 is that it directly violates the GATT rules. Article III, Sections 1 and 5 of the GATT together prohibit the parties from adopting laws which, to protect domestic production, require ". . . directly or indirectly, that any specified amount or proportion of any product . . . must be supplied from domestic sources." And S. 707 is incompatible with Article XI which prohibits, with exceptions not relevant here, the imposition of quantitative restrictions on imports.

The proposed local content bill which is before you is aimed primarily at Japanese auto imports. There has been much speculation as to what the Japanese response would be. One option for Japan would be to accept the American edict. A second option for Japan would be to file a formal complaint in the GATT seeking compensation from the United States. Since the U.S. local content law would surely be held to violate GATT rules, Japan would be authorized by the GATT to seek compensation or to institute retaliatory restrictions on designated imports from the United States.

Alternatively, Japan might elect to take more direct action either by encouraging purchases from our foreign competitors, by imposing tariffs or quotas on U.S. goods without GATT sanction, or by establishing other non-tariff barriers to the entry of U.S. products, either automotive or non-automotive. Whatever the form of response, whether within or outside the GATT rules, formal or informal, the result will be a loss of U.S. exports and of export-related U.S. jobs.

While the Japanese reaction could have very significant consequences for United States-Japanese trade relations, it would, in our view, be a grave mistake to assess the bill solely in terms of Japan. Our major concern is that the imposition of a local content law in the United States will, through example, encourage the proliferation of similar restrictions abroad, both by national and local governments. Local content laws and "buy national" practices abroad are already a pervasive impediment to U.S. exports. For example, under the Canadian Foreign Investment Review Act, U.S. companies have been restricted from investment in Canada unless they agree to purchase unreasonable quantities of Canadian components. The United States took the case to the GATT and won it. The Canadians have agreed to abide by the decision of the GATT Council. Other examples abound where solutions have not been reached.

While it is difficult to estimate the number of jobs which will be lost as a result of a fresh wave of foreign protectionist restrictions, it is virtually certain to be greater than any hypothetical employment gain S. 707 might bring about. Because each $1 billion in exports accounts for over 25,000 jobs, the loss of even $4 billion in exports would cost the United States 100,000 jobs. Among leading U.S. exports which might be affected by a resurgence of trade barriers are aircraft, office equipment, electrical components, corn, wheat and soybeans.

Moreover, S. 707 directly would undercut Administrative efforts to encourage trade liberalization measures by other nations. While the U.S. faces real problems with unfair trade practices by other countries, which contribute to our serious trade deficit, domestic content legislation would exacerbate, not improve, our trade problems. The imposition by the United States of a barrier to international trade in automobiles will undermine our negotiating position in bilateral and multilateral talks, such as the forthcoming London Seonomic Summit, defeating United States' efforts to obtain reductions in other nations' trade barriers.

We are also concerned that the adoption of a local content law for automobiles will lead to pressures on the U.S. Congress for additional federal "local content" laws and for "Buy America" or "Buy Local" laws by state legislatures applicable to import-vulnerable American industries. If these laws proliferate, reduced competition, higher prices and more trade conflicts with foreign nations will follow, leading to higher levels of retaliation and, ultimately, trade stagnation.

To sum up, enactment of S. 707 would encourage protectionist forces everywhere and open the way to a surge of trade restrictions that would restrain growth and increase unemployment throughout the world, not least in our own country.

We strongly urge that the committee reject S. 707. Thank you.

Senator DANFORTH. Thank you very much.

I would like anyone on the panel who would like to, to respond to several of the points that have been made in support of the domestic content bill.

First, it was said, as I understand it, by the representatives of the auto companies today, that the result of the voluntary restraints was not an increase in the price of automobiles. I think that they said the price of automobiles has not gone up faster than the cost of living. I may be wrong, but it is my clear impression that there has been a very rapid increase in the cost of cars in the United States. It is very difficult to get a small car. It is very difficult to get a car that is not loaded with options that are not really options.

Who is right? Have trade restrictions increased the cost of automobiles, or have they not? Would increased trade restrictions further increase the price of cars or not?

Ms. BROWN. It is difficult to say categorically who is right when the proponents come out and make statements as definitively as they do without siting sources. It is our impression both from shopping and speaking to consumers, speaking to dealers, and speaking to people who are connected with the automobile industry that prices have gone up considerably, that there is a long wait for many cars, that as you said, options are almost nonoptional anymore, that if one does want to have a car stripped and come down to a normal status, it takes a long, long time to have that done.

I cannot understand the proponents' statements that cars have not increased considerably since the VRA.

Senator **Danforth**. Brookings Institution says that the price of cars went up $400 as a result of voluntary restraints. CBO suggests that there would be a further increase of $333 as a result of domestic content. That is the lowest figure I have heard.

Ms. **Brown**. That is the lowest of several studies.

Senator **Danforth**. The lowest of several studies is $333.

Ms. **Brown**. Other economists have made higher estimates. On the voluntary restraints, one study has indicated that, after only a year of VRA, cars had gone up $1,900, $700 of which was attributable to the fact that a higher mix had been shipped into the United States, which is the normal result of restraints on any product.

Senator **Danforth**. Did you want to add something, Mr. Nield?

Mr. **Nield**. Yes, Mr. Chairman. I was referring to a report from the association of the domestic manufacturers and it has a very nice chart indicating the average expenditure per car over the years, and if you take 1980, which was the year before voluntary restraints were put into effect, the average price of all cars was $7,591. In 1983 it had gone up to $10,527, which computes to be a 38-percent increase.

Senator **Danforth**. If you could submit that chart for the record, I would very much appreciate it.

[The following information was subsequently received for the record:]

TABLE 24.—AVERAGE TRANSACTION PRICE PER NEW CAR

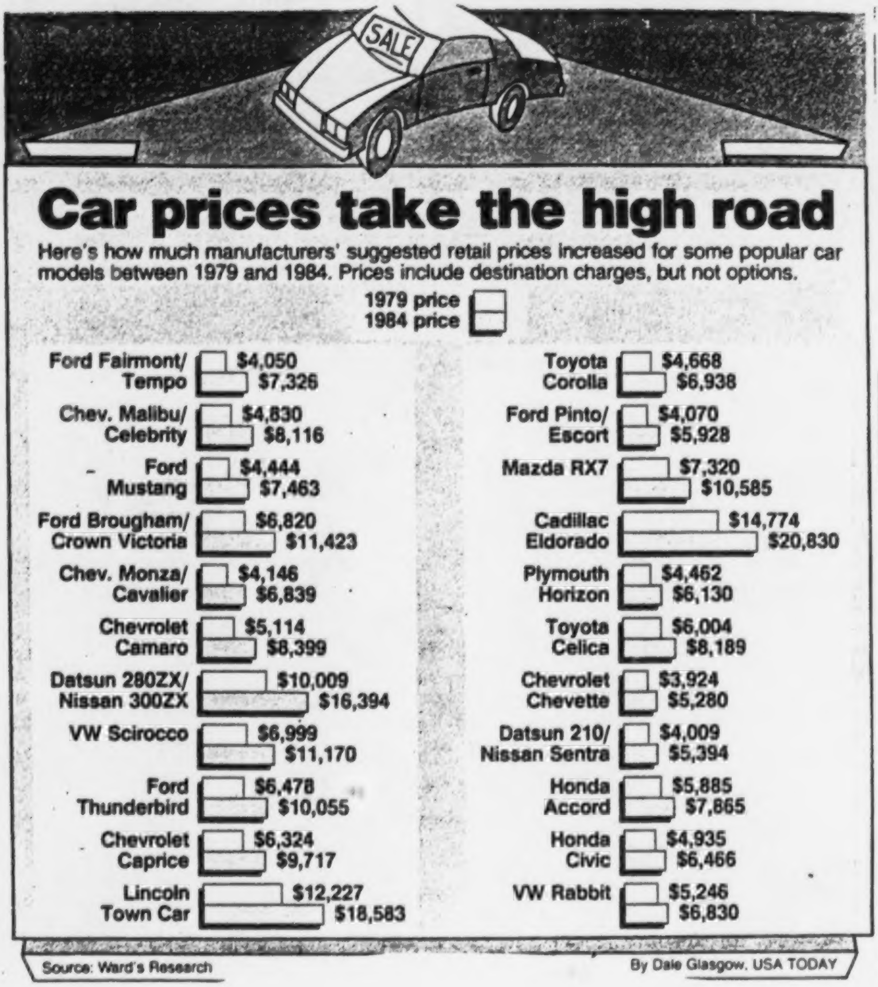
| Year quarter | Expenditure per car | | | Gross weekly earnings | Median family income | Expenditure per average car equivalent week | |
|---|---|---|---|---|---|---|---|
| | Domestic | Import | Average | | | Weekly earnings | Family income |
| 1960 | 2,918 | 2,063 | 2,853 | 80.67 | 5,620 | 35.4 | 26.4 |
| 1961 | 2,897 | 2,027 | 2,841 | 82.60 | 5,735 | 34.4 | 25.8 |
| 1962 | 2,981 | 1,992 | 2,933 | 85.91 | 5,956 | 34.1 | 25.6 |
| 1963 | 3,018 | 2,017 | 2,968 | 88.46 | 6,249 | 33.6 | 24.7 |
| 1964 | 3,011 | 2,058 | 2,954 | 91.33 | 6,569 | 32.3 | 23.4 |
| 1965 | 3,074 | 2,120 | 3,016 | 95.45 | 6,957 | 31.6 | 22.5 |
| 1966 | 3,140 | 2,174 | 3,069 | 98.82 | 7,532 | 31.1 | 21.2 |
| 1967 | 3,310 | 2,272 | 3,212 | 101.84 | 7,933 | 31.5 | 21.1 |
| 1968 | 3,531 | 2,353 | 3,406 | 107.73 | 8,632 | 31.6 | 20.5 |
| 1969 | 3,697 | 2,496 | 3,557 | 114.61 | 9,433 | 31.0 | 19.6 |
| 1970 | 3,708 | 2,648 | 3,542 | 119.83 | 9,867 | 29.6 | 18.7 |
| 1971 | 3,919 | 2,769 | 3,742 | 127.31 | 10,285 | 29.4 | 18.9 |
| 1972 | 4,034 | 2,994 | 3,879 | 136.90 | 11,126 | 28.3 | 18.1 |
| 1973 | 4,180 | 3,343 | 4,051 | 145.39 | 12,051 | 27.9 | 17.5 |
| 1974 | 4,523 | 4,022 | 4,439 | 154.76 | 12,902 | 28.7 | 17.9 |
| 1975 | 5,083 | 4,376 | 4,948 | 163.53 | 13,719 | 30.3 | 18.8 |
| 1976 | 5,504 | 4,912 | 5,414 | 175.45 | 14,958 | 30.9 | 18.8 |
| 1977 | 5,985 | 5,057 | 5,811 | 189.00 | 16,009 | 30.7 | 18.9 |
| 1978 | 6,481 | 5,937 | 6,382 | 203.70 | 17,640 | 31.3 | 18.8 |
| 1979 | 6,906 | 6,705 | 6,861 | 219.91 | 19,661 | 31.2 | 18.1 |

## TABLE 24.—AVERAGE TRANSACTION PRICE PER NEW CAR—Continued

| Year quarter | Expenditure per car | | | Gross weekly earnings | Median family income | Expenditure per average car equivalent week | |
|---|---|---|---|---|---|---|---|
| | Domestic | Import | Average | | | Weekly earnings | Family income |
| 1980 | 7,630 | 7,492 | 7,591 | 235.10 | 21,023 | 32.3 | 18.6 |
| 1981 | 8,940 | 8,894 | 8,929 | 255.20 | 22,388 | 35.0 | 20.2 |
| 1982 | 9,880 | 9,785 | 9,853 | 266.92 | 23,433 | 36.9 | 21.9 |
| 1983 | 10,481 | 10,660 | 10,527 | 280.67 | (1) | 37.5 | (1) |
| 1981: | | | | | | | |
| I | 8,428 | 8,224 | 8,374 | 247.92 | (1) | 33.8 | 21.8 |
| II | 8,962 | 8,902 | 8,945 | 252.75 | (1) | 35.4 | 20.8 |
| III | 9,104 | 9,046 | 9,090 | 259.12 | (1) | 35.1 | 20.6 |
| IV | 9,264 | 9,402 | 9,306 | 261.87 | (1) | 35.5 | 21.1 |
| 1982: | | | | | | | |
| I | 9,280 | 9,594 | 9,366 | 260.11 | (1) | 36.0 | 21.0 |
| II | 9,991 | 9,817 | 9,945 | 265.06 | (1) | 37.5 | 21.9 |
| III | 10,153 | 9,714 | 10,028 | 270.36 | (1) | 37.1 | 22.0 |
| IV | 10,094 | 10,016 | 10,071 | 271.93 | (1) | 37.0 | 22.2 |
| 1983: | | | | | | | |
| I | 10,314 | 10,111 | 10,258 | 272.78 | (1) | 37.6 | 22.5 |
| II | 10,339 | 10,684 | 10,424 | 278.60 | (1) | 37.4 | 22.1 |
| III | 10,723 | 10,811 | 10,745 | 283.49 | (1) | 37.9 | 22.3 |
| IV | 10,516 | 10,992 | 10,664 | 287.81 | (1) | 37.1 | (1) |
| 1984: I | 10,577 | 11,405 | 10,760 | 288.91 | (1) | 37.2 | (1) |

[1] Not available.

Source: "Average Transaction Price Per Car" unpublished data, U.S. Bureau of Economic Analysis; "Nonsupervisory Gross Weekly Earnings," U.S. Bureau of Labor Statistics; "Median Family Income", U.S. Bureau of the Census.



Car prices take the high road

Here's how much manufacturers' suggested retail prices increased for some popular car models between 1979 and 1984. Prices include destination charges, but not options.

Source: Ward's Research

By Dale Glasgow, USA TODAY

Senator **Danforth**. Before we get off the price thing, we were told in human terms what the effect of a person losing his job is, and of course, it is very wrenching.

Ms. Brown suggested in human terms stories of people who could not afford to buy a car. I take it that there are numerous stories that could be told of people who have had to make real sacrifices in their lives by the increased cost of cars or limited availability of cars, and that if we further increase the price of a car from anywhere from $333 to $1000 an automobile, there would be an awful lot of people in this country who would have a very difficult time providing transportation and getting to their jobs or providing food for their tables as a result of that decision.

Ms. **Brown**. I would certainly agree with that. Cars have become much more than a luxury item now. They are very obviously a necessity, particularly if you have a family where both the mother and father, or the husband and wife are working. There is no question that there would be a degree of sacrifice.

You know, here are very touching stories one hears about the unemployed who are concentrated in one industry and in one geographical area, particularly. There unquestionably anyone can be deeply moved by hearing this kind of report.

The thing that disturbs me is the belief that the answer to those problems lies in protectionism. This form of remedy is totally unrelated to what the real problem is.

It has always seemed to me that the industries, the large domestic industries which have the greatest problems of unemployment and which are crying now for more protectionism are the ones who have been protected the longest: the steel industry and the textile industry, for example. There must be a reason why protectionism is not solving their problems, and I have an awful feeling that the automobile industry is trying to go in the same direction, thinking that more protection will solve all of their job problems.

Ms. **Ridings**. I would like to add somethings in response to your earlier question. Another study that was done by the Bureau of Labor Statistics which indicates that the weekly earnings necessary to purchase a car since VRA went into effect in 1981 increased from 29 weeks of earnings to 37½ weeks. So if you tie in the concern about the increased price since VRA, I think that a very convincing picture can be drawn.

Senator **Danforth**. Let me then move on to the final point before we adjourn, the question of job loss and the related question of retaliation. Really there are two issues. One is whether or not other countries would retaliate. That matter has been in dispute, and I would like your judgment, particularly Mr. Samuels and Mr. Johnston, on this issue, whether or not there would be retaliation, and second, even if there is no retaliation as such, what would be the job consequences?

The CBO claims that 173,000 people would be kicked out of their jobs even without retaliation. How could that be?

Mr. **Samuels**. Mr. Chairman, I think the point Mr. Johnston made in his testimony is one that we believe in very much and we think requires greater attention by some of those who are proponents of this bill. It is the issue of the likelihood that the United States having a domestic content bill would provide a symbol for a number of other countries to develop similar kinds of legislation themselves. Thus would begin a spiral downward. That we would like to see avoided in the future, we would like to see expanded markets and reduced barriers of all kinds not only to trade but also to investment because trade and investment are tied together very closely.

If the United States passed a piece of legislation which is an attempt to reduce trade, and puts new restrictions on investment, we can expect this to be replicated in both developed and developing countries.

We are actively involved on behalf of U.S. business and, we think, in the interest of the United States in trying to get other countries to reduce such barriers.

We think that this Congress and this Nation ought to stand for reduced barriers, and we think that is in the best interest because we are convinced that there will be that kind of retaliation, and we do not need it. The taxpayer does not need it; the consumer does not need it.

And as for your second question, we happen to believe that those studies that we have seen, the CBO study that you referred to being one of them, that talk about the bill being a job loser rather than a job gainer, are accurate.

Senator DANFORTH. Why would that be?

Mr. SAMUELS. They seem to make sense. They are economically sound. They point out the extent to which a variety of other industries will be impacted by this kind of legislation. And they indicate the extent to which this is not a national bill: it is an industry specific, group of workers specific bill. It does not have a national vision.

Senator DANFORTH. Mr. Johnston?

Mr. JOHNSTON. Mr. Chairman, I really cannot comment on the question of the addition and subtraction in the CBO's analysis. It seems to me they have put together a list of stevedores who generally carry automobiles off of boats. You can count those people. If you are going to carry fewer automobiles off of the boats, then you can figure a certain number of people will lose their jobs.

But as I say, I am no expert on that. It does not seem to me too hard to do.

But I would like to respond on the retaliation. So far as retaliation is concerned, anybody who has observed American relations with Canada, I think, cannot possibly maintain that the Canadians will sit there and take something which they think is a jeopardy to an agreement that they reached some years ago. The Canadians have a reputation which is just as vigorous as that of the United States in making sure that the accounts are balanced at the end of the day.

So far as Japan is concerned, I think that there are a lot of reasons to think that Japan might not retaliate. There are 30 countries already that have local content rules. Most of those countries, with the exception, I think, of Australia, Portugal, and Spain, are less developed countries, and one of the weaknesses, I think, of the GATT is that people have not forced developing countries to follow the GATT too closely. But the main reason for it is that they have a limited amount of money that they can purchase with.

And in fact, if we have one area that the developing countries have perhaps overindulged themselves in, it is that they have imported too much. That is the reason for the debt that they have.

So far as Japan itself is concerned, our trade measures, that is to say forced measures, have not often hit the Japanese. As somebody mentioned, generally when we have had troubles with the Japanese, they have been negotiated. But you yourself brought out the 1973 soybean embargo. I think that is significant. Those of us, who unfortunately are as old as I am can remember, we had a time back at the end of the 1930's when people thought the Japanese would be very quiet so far as economic measures were concerned, and we had petroleum controls and scrap iron controls. And I think the consequences of that were extraordinarily severe.

If I were a Prime Minister in Japan and I saw something like 30 percent of my exports jeopardized in my principal export market, I would have to be a very strong leader indeed to say gentlemen, let's just lie back and take it.

I think it is a judgment we have to make, but I think it is quite risky.

Senator DANFORTH. Thank you very much for your testimony.

That concludes the hearing.

[Whereupon, at 1:45 p.m., the committee adjourned.]

# FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT

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TUESDAY, MAY 29, 1984

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
*Portland, OR.*

The committee met pursuant to notice, at 8:30 a.m., in conference room A, 13th floor, 700 Northeast Multnomah, Portland, OR, Hon. Bob Packwood (chairman of the committee) presiding.

## OPENING STATEMENT BY THE CHAIRMAN

The CHAIRMAN. The committee will come to order.

I might explain that in addition to having jurisdiction over the domestic-content legislation, this committee has jurisdiction over the Weather Service, and that is why we have had the weather we have had for the last few days. You can see I was very hard at work yesterday inspecting the Columbia Gorge and I can report that it is still there.

We've had 2 days of hearings on domestic content in Washington. Many organizations that are testifying here today were also represented there by their international organizations. Those organizations clearly focused on the importance of this legislation nationally, and while all of the witnesses who will testify today are welcome to comment on how they think it may affect us nationally, I am very concerned here today with how this legislation affects Oregon.

A number of years ago the Port of Portland did a study regarding how many jobs were provided by the importation of cars through the docks. It comes out, if you count primary and secondary jobs, to about 9,000 jobs. Because I have often seen studies done by organizations for themselves that perhaps might heighten the figures resulting to benefit themselves, I had the Department of Transportation do an independent study and, indeed, they came very close to the same figures.

Then there has been a study done in Houston, which is also a major port of entry for automobiles, by Booz-Allen, which is a well-known firm, and they come very, very close to our port's figures as to the value created for each car that goes through.

So, I am inclined to think that the figures given for the number of jobs is reasonably accurate, and in my mind, therefore, the question boils down to this: If we pass domestic-content legislation—in essence, saying that most of the cars sold in the United States will have to be manufactured in the United States—is Oregon going to win or lose? If those jobs are lost, are we going to make them up with some other kinds of jobs that will result from an improved economy? Or will more people be working in automobile manufacturing, although I am frank to say I do not think, if we pass a domestic-content bill and the cars must be manufactured in this country, that the Pacific Northwest is a likely spot for the placement of a manufacturing plant. The companies are much more interested in having a plant close to where the bulk of the population is, in Ohio, or Tennessee, or Kentucky, or possibly in southern California where there is an immense market. The likelihood, however, of plants being located in New England, or the Pacific Northwest, or Florida, or someplace on the tips of the Nation, I think, is slim.

I would like to read the opening statement from Governor Atiyeh in the record.

### STATEMENT OF HON. VICTOR ATIYEH, GOVERNOR OF OREGON

Oregon's concern and opposition to S. 707 stems from our recognition of the importance of international trade to our state, the Pacific Northwest and to the country. Moreover, I believe this legislation will fail to create new jobs or maintain existing jobs in the U.S. auto industry, while sacrificing a portion of international trade that is a major job generator, payroll provider and economic stimulus in our state.

In stating my opposition, some may assume that I have little compassion for the plight of the American worker facing unemployment lines—not so. I am very concerned about jobs and employment; in fact, in Oregon one out of eight jobs is involved in trade and transportation related activities and this continued to be a strong sector of our economy during the last recession, in which average employment in Oregon lumber and wood products sector dropped 24 percent, primary metals dropped 33 percent, food processing by 5.5 percent, and high technology fell 9 percent. The result was that since 1980, Oregon has lost 65,000 of its citizens through out-migration and at one time, ranked fourth nationally in unemployment rates.

Automobile imports have a significant bearing on the economy of Oregon, especially Portland, Oregon. Longshoremen, truckers, railroads, car dealers, distributors, financial institutions, to name a few depend on jobs generated by this industry.

Last year, over 250,000 import autos crossed the Portland docks. Statewide that translates to almost 9,000 jobs, that are related to these import auto. Moreover, every auto unloaded in Portland injects approximately $200 of direct value added into the local economy or $50,000,000 to Oregon's economy annually.

It cannot be assumed because of my opposition that I have ignored the fact that there are trade difficulties between the U.S. and Japan—I have not done so. Trade is enormously important to Oregon—we thrive on it—we depend on it—we benefit from it. We, at the same time, support efforts to improve trade relations, reduce trade barriers and increase U.S. exports; but improvements in trade relations must come from negotiation not legislation.

As you can see, I have reason to have concerns regarding this type of legislation. It will hurt the thousands of Oregon workers involved in this trade. Some might argue that what's good for Oregon may not be good for the country. That line of reasoning is inaccurate; this legislation is a treat to our nation's economic well-being in the future.

With Japan, the U.S. enjoys some $60 billion worth of trade, both import and export. Oregon is a primary agricultural and forest products supplier for Japan, and they buy freely—twice as much as our second largest trading partner.

For Oregon, that translates into 4.3 million tons of import and export cargo with Japan alone—or a $3.3-billion trade relationship.

The issue before you is not confined to the auto industry, but affects the future international trade opportunities for farmers, manufacturers, the service industry, and ports. This Congress has taken steps to promote exports with the passage of other legislation. It would be ironic and tragic if this Congress now took steps, through the passage of domestic content legislation, that would have the clear potential of closing opportunities for those export industries with promising futures and the economic impacts they will generate for this nation.

Call this legislation what it is, protectionist legislation that has the prospects of spurring on reciprocal actions and heightening emotional actions throughout the world.

We must recognize that, despite trade frictions that we have Japan and other countries, this nation has benefited greatly from international trade and will continue to reap benefits from free and open trade in the future.

I suggest that we go back to the bargaining table—press hard for change. Use and enforce remedies already in place in the several trade and tariff forums, formal and informal. But work out our differences as you would work out our differences with any long-time friend.

The CHAIRMAN. Let me say to the witnesses this morning that we are operating on a tight schedule. We have to finish by 11:30. The committee had over 60 requests, individual or organizational requests, to testify and we clearly could not accommodate 60 different people. So, I've asked all of the witnesses, if they will, to limit their statements to 5 minutes, give me a chance to ask some questions. All of your statements will be in the record in full. For those who have turned their statements in prior to yesterday, I have had a chance to read them in full. You don't need to read them again for my benefit, and for the sake of my having a chance to ask questions of all the witnesses, I would appreciate it if you could adhere to our time limits.

We'll start this morning with a panel. On that panel will be Blake Hering, the president of the Port of Portland Commission; Ben Murphy, the manager of the Port of Vancouver, speaking on behalf of the Pacific Northwest Waterways Association; and Darwin Rutland, the president of the Portland Steamship Operators.

Gentlemen, good morning.

Has Mr. Murphy arrived?

Mr. HERING. I didn't see him.

The CHAIRMAN. Why don't you go ahead? If he comes in the back door, will somebody send him up to the table?

Go ahead, Blake.

## STATEMENT OF BLAKE HERING, PRESIDENT, PORT OF PORTLAND COMMISSION, PORTLAND, OR

Mr. HERING. Good morning, Senator. It is a pleasure to speak before you this morning.

My name is Blake Hering, president of the Port of Portland Commission. I'm appearing today on behalf of the Port of Portland. I would like to, however, also submit for the record the written statements of the American Association of Port Authorities, the Oregon Public Ports Association and the Port of Seattle. As you will see, the three groups share mutual concerns about domestic-content legislation.

The port and the groups I represent today are opposed to passage of S. 707. Opposition to this legislation stems from our recognition of the importance of international trade to our community, the Pacific Northwest, and to the country. We believe this legislation will fail to create any net new jobs, while sacrificing a portion of international trade that is a major job generator, payroll provider, and economic stimulus in our community and throughout the country. One out of eight jobs is involved in trade- and transportation-related activities. This legislation simply cannot be seen as a jobs bill. It does not provide jobs.

There are trade difficulties. We support efforts to improve trade relations. Making U.S. goods more competitive on the world markets must become a top priority.

Some have argued this legislation is needed to send a message. But what is that message? Economic-impact research conducted by the Economic Research Associates of Los Angeles in 1976, and later updated by the port's research department to reflect 1983 dollars, shows that one direct job is created for every 223 cars that cross our docks. For every job created, there are an additional 6.72 indirect jobs generated within the community.

You hear a lot of different numbers, yet I know that the jobs we refer to in the Portland area are real jobs. The chain of activities and jobs associated with moving cargo are measurable and irrefutable, just as real as the circulation of the direct impact of those car dollars throughout the region. The point is these jobs are here. I want to see these jobs stay here and, I hope, continue to grow.

The irony and impact of the voluntary restraints of auto quotas has been to provide a shield to U.S. producers, racking up what appears to be the most profitable year in their history, with the U.S. consumer picking up the tab. I don't want to see another experiment at the expense of the Portland area region's workers.

Last year, 269,618 import autos crossed the Portland docks. Statewide that translates to 9,332 jobs, direct, indirect, induced, that are related to these imported autos. Moreover, every auto unloaded in Portland injects approximately $200 of direct value added into the local economy.

Japan, as we all know, is our leading trading partner in this region. For the Portland Harbor in 1983, that translated into 4.12 million tons of import and export cargo, or approximately a $3.3 billion trade relationship.

The issue before you is not confined to the auto industry, but affects the future international trade opportunities for farmers, manufacturers, the service industries, and the ports. This Congress has taken steps to promote exports with the passage of other legislation. It would be ironic and tragic if this Congress now takes steps through the passage of domestic-content legislation that would have the clear potential of closing opportunities for those export industries with a future.

Call the legislation what it is, protectionism that has the prospects of spurring a reciprocal action and heightening emotional actions throughout the world. Let's get on with ways to be more productive, to export more, to become better traders, to promote world trade. Free trade can be fair trade. Let's not pursue policies leading to no trade.

Thank you.

[The statement follows:]

## STATEMENT OF BLAKE HERING, PRESIDENT, PORT OF PORTLAND COMMISSION

My name is Blake Hering, President of the Port of Portland Commission. I am appearing today on behalf of the Port of Portland. I would like to, however, also submit for the record the written statements of the American Association of Port Authorities, the Oregon Public Ports Association, and the Port of Seattle.

Very simply, the Port is opposed to passage of S. 707 or H.R. 1234, the so-called Domestic Content legislation, or any variation that purposes significant trade protectionist actions. Portland's concern and opposition to this legislation stems from our recognition of the importance of international trade to our community, the Pacific Northwest, and to the country.

We believe this legislation will fail to create any net new jobs, while sacrificing a portion of international trade that is a major job generator, payroll provider and economic stimulus in our community and throughout the country. I am very concerned about jobs and employment; in fact, in Oregon, one out of eight jobs is involved in trade and transportation-related activities. This legislation simply cannot be seen as a "Jobs" bill. It isn't!

Some may assume because of my opposition that I have ignored the fact that there are trade difficulties between the United States and Japan—I have not done so. Trade is enormously important to this country—we thrive on it—we depend on it—we benefit from it. We, at the same time, support efforts to improve trade relations, reduce trade barriers and increase U.S. exports. Making U.S. goods more competitive on the world markets must become a top priority.

Some have argued this legislation is needed to "send a message." A "message" aimed at one of the United States' closest trading partners and allies—Japan—and the number one trading partner of Portland and of the Columbia/Snake River system.

But what is the "message?"

Let me state the "message" in Portland. Automobile imports have a significant bearing on the economy of the Portland region, Oregon, and the entire West Coast. Longshoremen, truckers, railroads, car dealers, distributors, financial institutions, to name but a few, depend on jobs generated by this industry.

### AUTO ECONOMIC IMPACT—PORTLAND

Economic impact research conducted by Economic Research Associates (of Los Angeles) in 1976 and later updated by the Port's Research Department to reflect 1983 dollars, shows that one direct job is created for every 223 cars that cross the docks. (See Attachment A.) For every direct job created, there are an additional 6.72 indirect jobs generated in the community.

Over the last few years, a lot of numbers have been stated as the economic impact of jobs impacts associated with "domestic content" legislation. Yet I know that the jobs we refer to in the Portland area are real. The chain of activities and jobs associated with moving cargo are identifiable and measurable. Just as real is the circulation of the direct impact of those "car" dollars throughout the region.

The point is, these jobs are here. I want to see these jobs stay here and, I hope, grow.

One of the arguments used to advance this legislation is that we will all be better off—that although Portland workers will be out of jobs—the economy will be better across the country and our workers will get other jobs. I just do not believe it!

This was the same logic used by the proponents of "domestic content" when they promoted quotas for Japanese autos.

The view was, give the U.S. auto industry a few years to reinvest, to improve efficiencies, to regain the market. Yet, as the New York Times recently reported, the irony and impact of auto quotas has been to provide a shield to U.S. producers, racking up what appears to be a most profitable year—with the United States consumer picking up the tab. I don't want to see another experiment at the Portland region worker's expense.

Last year, 269,618 import autos crossed the Portland docks. Statewide that translates to 9,332 jobs (direct, indirect, induced) that are related to these import autos. Moreover, every auto unloaded in Portland injects approximately $200 of direct value added into the local economy. An economic impact study of the Port of Houston, conducted by Booz-Allen and Hamilton, Inc., also indicated about a $200 impact per auto.

As you can see, I have reason to have concerns regarding this type of legislation. It will hurt my community. It will hurt the thousands of Oregon workers involved in this trade. Some might argue that what's good for Portland may not be good for the country; that Portland is only being provincial on the subject. That line of reasoning is inaccurate; this legislation is a threat to our nation's economic well-being in the future, as well as Portland's. Portland, indeed, is a microcism of the nation. This legislation is bad for Portland; it's bad for this region; and it's bad for the country.

### PORTLAND TRADE

Japan is a leading trading partner for this region. For the Portland harbor, in 1983, that translated into 4.12 million tons of import and export cargo—or a $3.3-billion trade relationship. Historically, more than one-third of all oceangoing commerce in Portland has been with Japan. Total oceangoing commerce in and out of Portland was 11.98 million tons in 1983.

Just as you should not decide this issue on the basis alone of what's good for Portland, you should not decide it based alone on what is perceived to be good for the auto industry. The issue before you is not confined to the auto industry, but affects the future international trade opportunities for farmers, manufacturers, the service industry, and ports. This Congress has taken steps to promote exports with the passage of other legislation. It would be ironic and tragic if this Congress now took steps, through the passage of domestic content legislation, that would have the clear potential of closing opportunities for those export industries with a future.

Moreover, we do not believe this kind of legislation addresses the critical issues facing the U.S. auto industry to become competitive again; we do not see its positive impact on the interest rates, the value of the dollar on the world market, the modernization needs of the auto industry or the need for responsiveness of the U.S. auto industry to the consumer markets in the U.S.

Call the legislation what it is, protectionist legislation that has the prospects of spurring on reciprocal actions and heightening emotional actions throughout the world. As at least one news commentator has said of the domestic content proposal, it's "an old style response in a whole new economy."

We must recognize that, despite trade frictions that we have with Japan and other countries, our country has benefited from international trade. If the U.S. wants to send a "message" to Japan to ease trade barriers and access by U.S. goods to Japanese markets, I submit that the Congress has already done so by the deliberations this Committee and others have had to date. The "message" is clear. Let's get on with ways to be more productive; to export more; to become better traders.

Go to the bargaining table—press hard for change. Use and enforce remedies already in place in the several trade and tariff forums, formal and informal. But work out our differences as you would work out your differences with any long-time friend. "Free trade" can be "fair trade." Let's not pursue policies leading to "no trade."

I appreciate the opportunity to present the concerns of the Port on this issue and would be glad to answer questions or provide the Committee with additional detailed information on the economic impact of this legislation on Portland.

ATTACHMENT A.—*1983 economic impact of auto imports at Port of Portland marine terminals*

| | |
|---|---|
| Employment (number of jobs): | |
| Direct | 1,209 |
| Indirect | 2,902 |
| Total primary | 4,111 |
| Induced | 5,221 |
| Total impact (statewide) | 9,332 |
| Valued added impact (in millions of dollars): | |
| Direct | $65.8 |
| Indirect | 43.6 |
| Total primary | 109.4 |
| Induced | 138.9 |
| Total impact (statewide) | 248.3 |

The direct impact is created by the flow of dollars of the providers of marine services. Direct impact results from activities directly involved with cargo movement. The providers of these services include stevedores, bar and river pilots, tug boat operators, ship agents, customs brokers, berth agents, ship crews, ship suppliers, international banking staffs, trucking, rail and barge crews, and other providers of port services.

The indirect impact results largely from the flow of dollars by users of marine services. These include firms which export, import, distribute, store, wholesale, and retail international cargo. Governmental navigation services of the Corps of Engineers, the Coast Guard, and the Fire Department are also included under indirect impact.

The induced impact results from the multiplier effect. It is larger than the primary impact because of the repeated spending which occurs. Due to the ripple effect, the induced impact tends to be diffused over a larger area; while direct impact is generally more concentrated in the local area.

Source: Derived from 1983 Tonnage and Economic Research Associates Study, 1976.

The CHAIRMAN. Thank you, Blake.

Mr. Murphy.

## STATEMENT OF BENSON MURPHY, MANAGER, PORT OF VANCOUVER, ON BEHALF OF PACIFIC NORTHWEST WATERWAYS

Mr. MURPHY. Good morning. I am Benson B. Murphy, the executive director for the Port of Vancouver, U.S.A., Washington, and I am appointed representative of the following organizations to present testimony against the proposed S. 707, domestic content legislation, entitled "Fair Practices in Automotive Products Act."

The following organizations: The Pacific Northwest Waterways Association, called PNWA. The PNWA is a nonprofit citizen's organization dedicated to comprehensive planning and development for water and related land resources in the five-State area comprised of Washington, Oregon, Idaho, western Montana, and Alaska.

PNWA seeks to enhance the social, economic, and environmental facets of life in the Pacific Northwest region. The specific programs and policies pursued by this organization involve energy, ports and transportation, agriculture and natural resources, and comprehensive planning and development.

The CHAIRMAN. Mr. Murphy, let me say this. I don't know if you were in the room, but I have had a chance to read your whole statement and we are holding the witnesses' remarks to 5 minutes, so I can ask some questions. You don't need to read the entire statement.

Mr. MURPHY. OK. I was going to be brief after I hit some highlights.

That I was authorized to represent the Pacific Northwest Waterways Association, and the Washington Public Ports Association, representing 79 small port districts throughout the State of Washington, including the Port of Vancouver, and a statement submitted by Automotive Services, Inc., which is a Washington-California corporation and processor of automobiles, and their statement was attached.

As I said earlier, no doubt you have heard the different comments at Congress, committee hearings, and this hearing as well, of the potential job loss, and so forth.

The viewpoint that I want to make for the record is what we feel should be considered to call attention to what is wrong with the concept of domestic content and what is wrong with this proposed legislation.

Outwardly it appears to be protectionist legislation and is viewed as such worldwide. Domestically, nationwide, it is viewed as protectionist legislation and nothing more than election year politics.

Specifically, when I deal with the concept, Mr. Chairman, of GATT, which is the General Agreement on Tariffs and Trade, it took 6 long years to revise GATT into a workable and acceptable agreement, and I think new legislation of this type will only jeopardize—which could be a direct violation of our obligations to GATT.

The other point which I wanted to emphasize on domestic content legislation is our balance of payments. Domestic content legislation would not alter the amount specifically. It would only work to increase the deficit when our worldwide trading partners take retaliation.

Agriculture alone contributes $40 billion toward our balance of payments, and collectively the States of the Northwest have a favorable balance on exports versus imports. Legislation such as proposed would erode this depressed economy even further.

With regards to the American seaports, they have invested over $5 billion since 1946 and they plan to or anticipate another $5 billion in new construction by 1990, and I think this is one of the crux of what we are trying to get at.

Dealing with long-range planning to buy valuable land necessary to handle autos, should domestic content legislation or any other form of legislation be brought before Congress in future years, it would only serve to disrupt the ports in their long-range planning.

Also, for their allocation of limited resources to purchase land for future expansions for autos, for budget projections, for revenues to identify expansion resources would be like gazing into a crystal ball.

Last, port marketing, sales, and promotion efforts would be adrift with a cloud of uncertainties hanging over them. New facilities not only are a vital link in the Nation's transportation, but are a link to international markets that are a key to the increased economic growth. Domestic content means domestic economic disaster.

Finally and lastly, I would like to mention in 1982 Norman D. Lean, the senior vice president and chief executive operating officer for Toyota Motor Sales, made these facts known in a statement or in a speech that he gave in New York in September.

Their total investment is $1.5 billion in the United States. They employ 35,000 people. Their marketing expenses annually are $1.6 billion. Toyota has returned into the U.S. investment 95 percent of every $1 earned in the United States. On domestic content, he made the statement that it is a fallacy, and we agree.

One last comment on H.R. 1234 passed on November 3. It is a blatant violation of the U.S. international obligations under GATT.

For all of the foregoing, we strongly urge you to vote "no" should this bill come to the Senate floor for action.

Thank you, Mr. Chairman, for this opportunity to present our views to the esteemed members of your committee.

[The statement follows:]

## STATEMENT OF BENSON MURPHY

The undersigned, Benson B. Murphy, Executive Director, Port of Vancouver (U.S.A.), Washington, is the appointed representative of the following organizations to present testimony "against" the proposed S. 707—Domestic Content Legislation, entitled "Fair Practices in Automotive Products Act".

### A. PACIFIC NORTHWEST WATERWAYS ASSOCIATION (PNWA)

The PNWA is a non-profit, citizens' organization dedicated to the comprehensive planning and development for water and related land resources in the five-state area comprising Washington, Oregon, Idaho, Western Montana and Alaska. PNWA seeks to enhance the social, economic and environmental facets of life in the Pacific Northwest region. The specific programs and policies pursued by this organization involve Energy; Ports and Transportation; Agriculture and Natural Resources and Comprehensive Planning and Development.

### B. WASHINGTON PUBLIC PORTS ASSOCIATION (WPPA)

WPPA represents 59 large and small local port districts throughout the State of Washington which includes large ports, small ports and river ports as far east to the Idaho border and includes the Port of Vancouver (U.S.A.), Washington.

### C. AUTOMOTIVE SERVICES, INC.

A Washington and California Corporation who is a processor and distributor of import automobiles. A statement is attached highlighting their concerns and fully supports this testimony.

We appreciate this opportunity to address this commitee to give our viewpoints "against" the proposed S. 707—Domestic Content Legislation.

No doubt, Mr. Chairman, up to this time, in Congress, at committee meetings, this hearing as well as at other hearings you have been told, advised or informed that if domestic legislation were to be enacted, 104,000 jobs would be lost in the U.S. export sector by 1990 against the creation of 38,000 auto jobs; that the direct and indirect jobs impact at U.S. ports could be as high as 80,000; that automobile prices would escalate sharply; that American exports and services would decline dramatically, thus increasing our balance of payments even higher. I'm sure all of the above is part of the committee's records and in much broader detail.

Viewpoints that may or may not be in the records and what we feel should be considered is to call your attention to what is wrong with the concept of domestic content and what is wrong with this proposed legislation.

Outwardly it appears to be "Protectionist Legislation" and is viewed as such world-wide. Domestically, nationwide, it is viewed as "Protectionist Legislation" and nothing more than election year politics. But for those of us in the real world of business and commerce, we view this as a much deeper national problem, namely that there is an overall lack of direction from the federal government in establishing an international trade policy. If not this, then, it is confusing our aims and goals as well as to undermine some of our federal government's earlier accomplishments.

Specifically (GATT) The General Agreement on Tariffs and Trade. The distinguished Honorable George Abrams, his staff, colleagues and other international specialists spent six long years to revise GATT to a workable and acceptable agreement. This proposed legislation would only serve to destroy this agreement within a short period of time. Any new imposed restrictions or limitations would be viewed as a direct violation of U.S. obligations under GATT resulting in swift retaliation against United States exports. Retaliation by our trading partners, world-wide, would cause a potential loss of American jobs in the export sector of "at least 135,000 export related manufacturing and agricultural jobs at risk".

We are all aware of our balance of payment problems and that our trade deficit for 1984 could be in excess of $100 billion. Domestic content legislation will not alter that amount significantly, and would only work against us and increase the deficit when our worldwide trading partners take retaliatory measures. Agriculture, alone, contributes 40 billion dollars toward our balance of payments. Here in the Northwest, the agriculture, timber and aluminum industries are the backbone of our exports. Collectively, the states of the Northwest has a favorable balance of exports versus imports. Legislation such as proposed would erode this depressed economy even further.

The American seaports have invested more than $5 billion in new and expanded facilities since 1946. Another $5 billion or more in new construction is anticipated by 1990 to expand and improve our nation's ports. All ports, in their long-range planning consider the valuable land necessary to handle autos. Should this Domestic Content Legislation or any other form of legislation be brought before congress in future years, it would only serve to disrupt our ports in this long range planning; also for their allocation of limited resources to purchase land for future expansion for autos; for budget projections for revenues to identify expansion resources would be like gazing into the crystal ball, and lastly the ports marketing, sales and promotion efforts would be adrift with a cloud of uncertainties always hanging over them. New facilities not only are a vital link in the nation's transportation network, but they are a link to international markets that are a key to increase economic growth. Domestic Content means "domestic economic disaster".

Domestic Content Legislation will hurt our domestic auto industry, not help as stated by the U.A.W. Free enterprise is the American way and competition leads to better products. Because of competitive pressures on price, foreign competition has also provided important incentives for U.S. manufacturers to engage in research efforts and to invest in new technologies. American car makers are already importing engines, transmissions and other components. Domestic Content legislation would only serve to disrupt supply lines and aggravate the demands upon scarce domestic capital resources. The resulting supply effects would increase car prices, leading to reduced sales and employment in the auto industry.

In conclusion, Mr. Chairman, we feel legislation of this type would have an adverse effect on Foreign Investment in the United States, particularly as it relates to the auto industry. One foreign company concluded that building trucks in the United States was an acceptable business risk. Had Domestic Content Legislation been on the books at that time, that decision would not have been made.

In 1982 Norman D. Lean, then Senior V.P. and Chief Operating Officer for Toyota Motor Sales U.S.A., noted these facts. Total U.S. investment $1.5 Billion; U.S. employees 35,000; marketing expenses annual in U.S. $1.6 Billion; Toyota has returned into the U.S. investment 95% of every dollar earned in the U.S.; on domestic content, it's a fallacy. We agree.

The competition arena is what creates the new things and the excitement. The consumer loses without that. Foreign retaliation measures would only defeat competition.

One comment of H.R. 1234, passed on November 3, 1983. It is a blatant violation of the United States International Obligation under GATT and for all of the foregoing.

We strongly urge you and all your colleagues to vote against S. 707, or domestic content in any form. Please vote "NO" should this bill come to the Senate floor for action.

Thank you, Mr. Chairman, for this opportunity to present our views to the esteemed members of your committee. We believe that these views accurately reflect the collective judgement of the Pacific Northeast Waterways Association, the Washington Public Ports Association, Automotive Services, Inc. and the Port of Vancouver (U.S.A.), Washington.

The CHAIRMAN. Thank you, Mr. Murphy.

Mr. Rutland.

## STATEMENT OF DARWIN RUTLAND, PRESIDENT, PORTLAND STEAMSHIP OPERATORS ASSOCIATION, PORTLAND, OR

Mr. RUTLAND. Good morning.

The CHAIRMAN. Good morning.

Mr. RUTLAND. My name, Senator, is Darwin Rutland. I am president of the Portland Steamship Operators Association.

For more than 50 years our organization has represented the interests of vessel owners and shipping agents operating in and through the ports along the lower Columbia River.

Seldom in recent years has a bill been debated seriously in Congress that, in our view, is more inappropriate or potentially damaging to international trade than the domestic content legislation we are discussing today.

We believe passage of this protectionist measure threatens the lucrative trade relationship the United States presently enjoys with Japan. Japanese auto imports are a major component of the vital Pacific Trade Rim.

Should domestic content become law, these benefits can be expected to deterioriate.

Moreover, the adverse effects of domestic content are not likely to be restricted to auto import shipments. For west coast shippers, a decline in the overall trade volume with Japan may have far-reaching consequences. To the members of the Portland Steamship Operators Association, these scenarios are real and substantial.

We also believe domestic content does not address the real problems affecting the American auto manufacturers it is designed to help. The recent auto recession is a compounded problem of high interest rates, declining product quality and the lack of responsiveness to the American consumers' demand.

We urge the Senate not to pass this bill. Considering the damaging impact it will have on west coast shippers, it is far too high a cost to pay for a quick-fix and probably unnecessary remedy for America's auto troubles.

Thank you, sir.

[The statement of Mr. Rutland is as follows:]

### STATEMENT OF DARWIN RUTLAND, PRESIDENT, PORTLAND STEAMSHIP OPERATORS' ASSOCIATION, INC.

My name is Darwin Rutland and I am president of the Portland Steamship Operators Association. For more than 50 years, our organization has represented the interests of vessel owners and shipping agents operating in and through ports along the lower Columbia River. Seldom in recent years has a bill been debated seriously in Congress that, in our view, is more inappropriate or potentially damaging to international trade than the Domestic Content legislation we are discussing today.

We believe passage of this protectionist measure threatens the lucrative trade relationship the United States presently enjoys with Japan. It will result in significant losses in West Coast trade and could well lead to a consolidation of steamship line activity in only the largest ports, restricting business for others. This could produce serious problems in the Pacific Northwest. For these and other reasons, we strongly voice our opposition.

Japanese auto imports are a major component of the vital Pacific Trade Rim. The volume of imports through the Port of Portland and its economic impact is indicative of the value in maintaining this relationship. In 1983, over 269,000 Japanese imports passed through Portland, creating 9,300 direct and indirect jobs. Each import car injected over $240 into the local economy. Similar trade benefits can be seen in other cities, such as Seattle and Tacoma, whose economies are dependent in large part on trade with Pacific Rim countries.

Should Domestic Content become law these benefits can be expected to deteriorate. Restricting imports to only those containing a percentage of American made parts will sacrifice a trade that has been a steady stimulant for jobs and capital in the Pacific Northwest. We cannot afford these losses at a time when we are only beginning to see economic recovery.

Moreover, the adverse effects of Domestic Content are not likely to be restricted to auto import shipments. By injecting a new, antagonistic element into our dealings with the Japanese we will heighten tensions and lay ourselves open to reciprocal action. Lumber and agricultural exports, which comprise one-third of our commerce to Japan, are particularly vulnerable to a protectionist reaction on their part.

For West Coast shippers, a decline in the overall trade volume with Japan may have far-reaching consequences. If commerce to Pacific Northwest destinations declines, steamship lines can be expected to consider consolidation of their West Coast activities. Some ports, along with local shippers and exporters, may be squeezed out of competition for overseas business.

To the members of the Portland Steamship Operators Association these scenarios are real and substantial. We recognize there are still trade imbalances with Japan. However, we do not believe they warrant action as strong as this bill.

We also believe Domestic Content does not address the real problems affecting the American auto manufacturers it is designed to help. The recent auto recession is a compounded problem of high interest rates, declining product quality, and lack of responsiveness to the American consumers' demand. The industry now appears to be enjoying a profitable surge that suggests U.S. auto companies are handling overseas competition effectively without the need for this legislation.

We urge the Senate not to pass this bill. Considering the damaging impact it will have on West Coast shippers, it is far too high a cost to pay for a quick-fix and probably unnecessary remedy for America's auto troubles. If Congress wishes to send a message to our Pacific Rim trading friends, as proponents of Domestic Content believe this bill will do, let the message be that the United States will not return to out-dated, impractical protectionism.

The **CHAIRMAN**. Let me read just the names of several other organizations who wanted to appear here today, and we could not accommodate them all, but at least who they are and their statements.

The Philadelphia Port Corp., in opposition to the bill; the Jacksonville, FL, Port Authority in opposition; the Benicia Port Terminal Co., in California in opposition; the Portland Chamber of Commerce in opposition; the Pacific Northwest International Trade Association in opposition; the Pacific Rim Trade Association in opposition; Washington Citizens for World Trade in opposition; the Oakland World Trade Association in opposition; the National Association of Stevedores, the same; and Ricky Smith, the president of the Stevedoring Services of America in opposition.

I will put those statements in the record.

Let me ask you this question, because your congressional delegations look out for their States, and Mark Hatfield and I and the Members of the House are going to look out for this State. I'm very concerned about jobs in Oregon. The argument that is raised that this legislation will produce more jobs somewhere, somehow, and that when those jobs are produced and people go to work, it reduces the deficit. That will bring interest rates down which, in turn, will make housing sales go up, and create timber industry boom. On balance, therefore, this argument contends that Oregon will come out a net winner under this legislation.

Could the three of you address yourself to that theory?

Mr. **Hering**. Well, let me approach it this way, Senator.

During a very difficult economic time for all of us in Oregon and in the Northwest in general, and when there are other issues on the ballot, that had a great deal of merit, the port was able to pass a $40 million bond issue to rehab terminal 2, which I think speaks directly to the fact that the public realizes the importance of international trade and realizes the jobs that are created; and this, again, will create additional jobs, and it is necessary to keep us competitive in a very competitive world.

I think that when you look at any type of domestic content law, you are looking at something that is begging for a responding action by our foreign trading partners. When you get to the position where you say to yourself one out of every six jobs is either directly or indirectly related to port activity, anytime you can further that cause, you are creating jobs, directly and indirectly, and there is no refuting that. It is there with facts and figures to back it up.

The **Chairman**. But is there any way that the theory can hold? Now, again, we are looking at Oregon and the northwest. Is there any way the theory can hold that domestic content would produce so many jobs in this country it would reduce the unemployment rate? It is estimated that there is about a $30 billion net difference in the Federal deficit for each 1 percent of unemployment. That estimate is made on the basis that when people go to work, they pay taxes and they don't collect unemployment compensation and that narrows the deficit. Is the theory valid that this bill will so benefit the Nation that the spin-off effects for Oregon will be greater in other industries then it will be from the loss of jobs due to automobile import? Mr. Rutland.

Mr. **Rutland**. Senator, from a practical standpoint, I think the application of that theory is a little bit short because it is a matter of relocation of people, too. If we're taking, for example, the people that have a certain expertise in the auto industry and to relocating them locally into the forest industry, that would create no beneficial gain. I don't think that would do it.

The **Chairman**. I don't think you are going to relocate them. I think the argument is that you are going to lose a lot of jobs on the docks, but you are going to put a lot of people to work in Roseburg, in Grants Pass, in Medford, and in Eugene at the lumber mills that are now down because of the high interest rate.

Mr. **Rutland**. But that is exchanging one for another and I don't think creating unemployment on the docks or in shipping or in the auto industry, as we know it now, is going to accomplish anything. That's definitely going to be a disadvantage. I think the problems that the auto industry for America have should be resolved locally without bringing in international interests. It could be damaging in more ways than just domestically. It could be damaging internationally. We're talking about an industry that survived with a limited amount of legislation for years. I think that to further complicate it with something like this protectionist legislation would cause a more damaging effect in the long range.

The **Chairman**. Mr. Murphy.

Mr. **Murphy**. As I said earlier, there were many—you have heard lots of comments pro and con, one of which was 104,000 jobs would be eliminated versus creating 38,000 jobs in domestic content. I would like to go back to what is wrong with the concept, and namely, the overall lack of direction from the Federal Government in establishing international trade policy.

If we have a firm policy, and our foreign neighbors understand our international trade policy, then that is going to lower the barriers as far as trade is concerned. On the import side of automobiles, it has caused the automobile industry to seek avenues, to have research, because it is competition. I think that research—and as it points to Oregon, we are always looking for the silicon chip industry, that might be a potential which would expand in this area.

Thinking of the port aspect of it, yeah, everyone here is trying to protect the ports and their interests, but ports have contributed. As was mentioned, Portland has passed a $40 million bond issue. That in itself creates a certain number of jobs, yes, in a short period of time.

But overall, if we have a firm international trade policy, I think that is where we need to put emphasis, and once we put emphasis in that direction and have our neighbors—and worldwide—we keep talking about Japan and our competition, we have worldwide competition, whether it be South Africa or Europe—that will increase, that will stabilize, and then your lumber industries and your other industries, aluminum and particularly agriculture, are bound to have an increase.

I think that is where we need to point our directions rather than to have a—perhaps called a quick-fix or domestic content.

The **Chairman**. Thank you. gentlemen, I have no further questions. I appreciate it.

Mr. **Hering**. Thanks, Senator.

The **Chairman**. You bet.

Mr. **Rutland**. Thank you for this opportunity, Senator.

The **Chairman**. Next we will take a panel of Irv Fletcher, the president of the Oregon AFL-CIO; Tom Arp, the president of local 492 of the United Auto Workers; Stanley Jensen, the general vice president of the International Association of Machinists; Del Ricks, the president of the Oregon State Industrial Council; Tony Andrews, the Secretary-Treasurer of Teamsters Local 305; and Dennis Stride, the chairman of the public relations committee of the International Longshoremen and Warehousemen Union.

Irv, why don't you start.

## STATEMENT OF IRV FLETCHER, PRESIDENT, OREGON AFL-CIO, SALEM, OR

Mr. **Fletcher**. Thank you, Mr. Chairman. First, let me speak on another matter. It may not be before the committee, but we want to thank you personally for the efforts that you have expended on behalf of amending the bankruptcy bill. That, of course, is one of the priorities of the national AFL-CIO, as a matter of fact, of all labor unions, and you have taken the lead, and we are proud of you for that.

The **Chairman**. Irv, thank you. I might explain to those listening a little bit of what he is talking about. The Senate has before it a bankruptcy bill that started out to be a routine bill. It had to do with appointing some more bankruptcy judges and cleaning up the Bankruptcy Code. But, because of a Supreme Court decision in February relating to whether or not somebody who is in a chapter 11 reorganization can terminate their collective bargaining contract unilaterally before approval of the bankruptcy judge; the Court said they could and there is a tremendous battle going on in Congress right now, not as to whether those contracts can be discharged with approval of the judge, there is no argument about that, but whether the employer can unilaterally terminate them prior to approval of the judge. That is the issue the Senate is working on. We were right in the midst of it when we left to come for this recess.

Thank you very much, Irv.

Mr. **Fletcher**. Keep up your good work.

The **Chairman**. Thank you.

Mr. **Fletcher**. To another matter, Mr. Chairman, members of the committee, I am Irv Fletcher, president of the Oregon AFL-CIO, representing 300 local unions and 25 councils of unions, all of whose members live and work in the State of Oregon. I want to thank you for the opportunity to appear before you today in support of passage of S. 707, the domestic content bill.

As you are aware, Mr. Chairman, Lane Kirland, the president of the AFL-CIO, has already appeared before this committee in support of S. 707. I don't believe I can add to his eloquent testimony on the domestic content issue except to say that we in the Oregon AFL-CIO have no reservations whatsoever about supporting a law that would require that foreign auto and truck manufacturers with large sales volume in the United States produce increasing portions of their vehicles in this country.

Others at this table will go into some detail. That is why that is the end of my testimony. Brother Arp, Brother Jensen, and Brother Ricks will go into some more detail about what the impact would be on workers in Oregon.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Irv.

Mr. Arp.

## STATEMENT OF TOM ARP, PRESIDENT, LOCAL 492, UNITED AUTO WORKERS, PORTLAND, OR

Mr. ARP. Mr. Chairman, my name is Thomas Arp and I am president of local 492. I am here today to represent workers in the State of Oregon, Chrysler Parts Depot, General Motors, Williams Air Control, and Nissan Motor Manufacturing. I am going to keep my remarks to three specific areas: The way we envision the impact of domestic content on the State of Oregon. Second, the misleading facts that I think that you are getting by the opponents of the bill. I'd like to bring to your attention other representatives that had requested to speak that were not allowed to speak. I'd like to bring your attention to Linda Rasmussen, representing the Communication Workers of America; Larry Burnside, representing Carpenters District Council of Oregon; John Ball, representing International Woodworkers of America; Cecil Tibbets, representing the American Federation of State, County and Municipal Employees; Dick House, representing Labors International; Jerry Donnelly, representing Oregon School Employees Association; and if there are others I missed, I really apologize for that. Senator Walt Brown is here, also.

Mr. Chairman, I think that we have lost a little bit of the flavor of Oregon by not allowing them to speak and I think that if there is a way of rectifying that at another date, we should try to look at that.

The CHAIRMAN. Well, let me explain what the situation is, very frankly. The only group that is solidly in favor of the domestic content legislation is, by and large, organized labor. I have faced this problem in the past. What happens if you have got basically 80 or 90 groups in opposition and one group in favor? Do you have an equal number of witnesses even though the number of groups are totally disparate, or do you try to somehow find representative viewpoints?

We had to turn down about 40 different groups—Oregon, Oregon people, not those others that I read off from Jacksonville and Philadelphia—that wanted to be here because we could not fit them all in. I had hoped that the panel we have now would give an adequate cross-section from the standpoint of the unions so that it would be sufficiently representative. The committee just could not fit everybody in.

Mr. ARP. OK. I appreciate that, and I do appreciate you expanding the panel, as you have done, and I thank you for that, also.

Mr. Chairman, domestic content legislation would have a positive impact on our State. Oregon's economy is based in wood products and I think our State flows just about the same as Michigan, and I think you elaborated a little bit on my statement in the panel prior. If we create employment in Michigan or any other State, it is going to have an impact on the deficit. It is going to create jobs. It is going to put people back to work and when you do that you are going to have an obvious impact on the deficit. When you do that, you are going to reduce that deficit which, therefore, has a tendency to reduce the cost of money that is borrowed and will have an impact on our wood products industry. We flow about the same as Michigan. The Federal deficit is $200 billion, figures I can't even comprehend from my level. It is just astronomical.

I might be misquoting. I was told by Stan that my figures were too low, but I think our trade balance deficit is $10 billion.

The CHAIRMAN. It is closer to $100 billion, if you mean the deficit for the year.

Mr. ARP. Yes; I was talking about last month.

The CHAIRMAN. Oh. Well, that would be about right, yes.

Mr. ARP. I mean, you know, we are talking about a month, you know that kind of a thing. When you get into those kinds of figures, again, I just sort of go blank. But I was looking at our statistics and I find out, out of the manufacture of goods, auto represents two-thirds of the deficit. It is a huge portion of that.

Those two things would be impacted. You would reduce those issues. Oregon would rebound and we would be a healthy state.

We also have a very strong advantage here in aluminum products. Cars are 12 percent aluminum today. We produce aluminum, have aluminum producers here. I guess my thoughts go like this: if we have an inherent advantage, let's use it. Let's take that aluminum industry and create stamping plants, parts plants. Let's load those Japanese ships and unload those Japanese cars and put on some of our aluminum parts and ship them back to Japan; or, when they come off of those ships and they are in containers, let's build them here. Let's add those parts here. Let's put those things together. I guess that is the major thrust of those comments.

I look at domestic content as a tool. I am a native here. I have lived here all of my life. I don't want anything to disturb the State that I love. I notice your face is as red as mine. I was up enjoying the Palmer ski lift. I love our State and I think this is going to help our State.

The Japanese have many advantages. They have the yen. They have tax incentives that they use to bring their products into our country.

The CHAIRMAN. Wait, let me stop you there.

Mr. ARP. Yes.

The CHAIRMAN. What are the tax incentives? I see this referred to frequently.

Mr. ARP. Well, I am quoting Lee Iacocca, who is probably a well-renowned individual throughout the United States, and he says there is about a $1,500 to $1,800 per car advantage in tax subsidies. It represents 25 percent of the list of those cars that come into the United States. That is basically what it says. It goes into areas that they have subsidized in regards to their imports.

The CHAIRMAN. Let me explain what it is and then see if you would want to have that kind of a tax system here. They are sales taxes or consumption taxes or value added taxes. If you sell a car in Europe or if you sell a car in Japan—this is a car made there—

you pay a sales tax; just like if you sell it in Washington, you pay a Washington sales tax. But, if you export the car, you do not pay the sales tax or the consumption tax because the car is not being used there.

Would you want this country to go to that same kind of a system? Under the rules of international trade, consumption taxes levied upon products that are to be used in the State which produces them and consumes them may be rebated if you export. Would you want the United States and Oregon to go to that kind of a tax system? Basically, it is a broad-based consumption sales tax.

Mr. ARP. It is an interesting point. I would say that under the systems that we have today that it creates unfair competition, because when our cars come into their country or any other automobile, they are taxed at those rates, which makes an unfair balance. If they want to take that off of our automobiles, then we should play the game fairly. We will put that consumption tax here in the United States on their cars.

The CHAIRMAN. As a matter of fact, they are not taxed at those rates, but that is neither here nor there. The question I want to come back to is whether or not you would like this country to adopt tax systems similar to Japan and Europe?

Mr. ARP. I am not a tax authority. I would say that if the tax is one that creates an unfair exchange between our products and their products, then I would say yes.

The CHAIRMAN. OK.

Mr. ARP. If it does not, then I would say no. That would be my opinion, but I am not a tax authority.

The CHAIRMAN. Go ahead.

Mr. ARP. No. 2, misleading facts being distributed by opponents of domestic content. I heard it on the panel before us that says if we adopt this, we are going to have retaliation. That is what is going to happen. They are going to retaliate. I have to say, sort of unequivocally, I think it is bull.

Mr. Chairman, before you listen to that, ask them to prove that point. Just ask them to prove it. There has never been a case filed through GATT since its formation in 1947 on any auto-related content issue or import quota. Japan, England, France, Italy, Germany, any auto-producing country, has never filed a complaint. There are over 30 nations that have identical laws as we are proposing, or conditions that achieve much stricter content. The opposition says retaliation. Show me one case, one complaint, and I will listen. If this can't be done, then I say their position is fantasy.

This is the most lucrative auto market in the world. The Japanese won't abandon it. They will build in it as they have to do in every other auto-producing country that they impact.

Mr. Chairman, the Port of Portland says they are going to lose millions of dollars of revenue because we will lose all of these wonderful jobs, which I imagine they are. Getting into a Japanese car and turning on a key and driving it off of a ship is not a bad job. It is a good job. But I think we can create more jobs here if we take them off in a container or we have parts that are off-loaded and they are assembled on our docks or we add aluminum products to those cars, produce them here, whatever. Even gross aluminum going out of our State will give part of the reciprocal value added, and it works that way. That is what content is all about. Commonsense says it doesn't take a lot of time to off-load cars by driving them off. It is just not there.

Mr. Chairman, I say let's get smart. Let's use your influence for the State of Oregon, and I do appreciate and I support the comments of Brother Fletcher over here. I think that you are doing a good job in that area and I support that. I want to thank you personally for that, also. But let's use that influence for the State of Oregon. Let's put the pressure on the Japanese. Let's get them to build here. Let's get them to produce here. Let's get them to do things that will impact us in a positive way. Let's make them respond.

Mr. Chairman, in closing, I have heard all of my life what is good for General Motors is good for the United States and I think most everybody in this room has heard that kind of a remark. Now I hear a new tune and it is called what is good for General Motors is good for Japan. The whole logic of this goes into the fact that General Motors is lobbying, along with other interested groups, to do away with the import quota restrictions and do away with content, any kind of a content legislation, and the reason is they want to bring in 300,000 small cars. If it really gets down to it, it comes out to 550,000 by the year 1990, from Korean cars to Japanese cars, and whatever, in our particular market. If that is a possibility and occurs, we are going to lose millions of dollars in taxes. We are going to lose millions of jobs. It is going to impact all of us.

I don't think we can do it, and I don't think we should do it and I really appreciate the opportunity to speak to you about it. Thanks a lot.

The **Chairman**. Thank you.

Mr. Jensen.

## STATEMENT OF STANLEY JENSEN, VICE PRESIDENT, INTERNATIONAL ASSOCIATION OF MACHINISTS & AEROSPACE WORKERS, PORTLAND, OR

Mr. **Jensen**. Before I begin my comments, Senator, I don't think enough can be said about the outstanding fight that you are putting on in behalf of the bankruptcy law.

The **Chairman**. Thank you very much.

Mr. **Jensen**. And our national director up on the Hill, Bill Holayter, told me the trench-like fight that you are making and I want you to know that all working people should be aware of it and you are to be commended.

The **Chairman**. He is one of the half dozen best lobbyists—labor, management or otherwise—on the Hill. He is a very superior person and you are lucky to have him.

Mr. **Jensen**. I think so. I remember when he was just a young man.

My comments are as follows. For the past 25 years I have spoken out on the tragedy of the mass exodus of American jobs overseas. At times in our history people in control cared about our people and protected their jobs. Is it any wonder we have hundreds of thousands of autoworkers out of work when in 1982 the United States imported 3 million automobiles and exported 20,000? While traveling in Japan in 1983 on my sixth visit there over the last 20 years, we visited the Osaka World Trade Center where we observed a Buick Regal on sale for 26,500 American dollars. The same car at that time sold for $8,500 in the United States.

Japan, not the United States, is practicing protectionism, and for that reason, United States products are not to be found in Japan. I submit to you that Toyotas and Datsuns would not be sold in quantity in this country if the price were $26,500. No wonder a Toyota vice president answered my complaint with the statement: "It appears American cars are not necessary in Japan."

Imported automobiles are not the only trade problem, although they are the most visible.

Thousands of steelworkers continue to be laid off while this Nation imports steel from 12 steel-producing nations—the United States the only steel-producing nation, incredibly, that imports steel.

Here in the great northwest, raw logs are sent overseas with returning ships bringing back wood products that Americans formerly produced. Is it any wonder that thousands of Oregon, Washington, and Idaho lumber workers are without jobs?

Over 5,500 items that 25 years ago this Nation was a major producer of we either no longer produce or are in only token production, including typewriters, sewing machines, radios, televisions, lightbulbs, boxcars that Food Machinery Corp., here in Portland formerly produced, et cetera.

The United States, the greatest shipbuilding nation the world had ever known in 1946, now produces less than 3 percent of the world's shipbuilding tonnage. Less than 1 percent of the ships on the high seas fly the American flag, while thousands of American seafaring men go unemployed and the shipbuilding skills of the Nation are being lost through lack of employment.

The cry is that there will be many high tech jobs for workers in the United States. At the same date that pronouncement was made, Atari announced moving its entire operation to Hong Kong and Singapore.

The slogan "free trade" is great, but the United States of America is the only one practicing it. How about fair trade? The European Common Market was formed to trade only with European nations while freezing out products from the United States.

The machine tool industry in the United States is in desperate straits as a result of massive overseas imports. We should remember, machine tools are the very lifeblood of any productive, modern society—not a wheel turns without them. Foreign imports now comprise two-thirds of the machine tools sold in the United States.

Our great Boeing, Lockheed, McDonnell-Douglas aerospace companies, our only No. 1 industry left, import many aircraft parts. Forty percent of the new Boeing 767 is produced overseas and Boeing is now negotiating with Japan to produce entirely in Japan a 150-seat jet with Boeing technology, all of this with 15,000 Boeing employees laid off. Can you believe Japan now builds the F-15 U.S. fighter planes?

Even more shocking is the report by Boeing itself that their new 737-300 jet will be assembled in China—with imports from other parts of the world, of that you can be sure.

Consider in 1955 over half of those working for a living in the United States were engaged in the manufacture of something. Today that figure is below 20 percent. In other words, 1 out of 5 citizens in the United States is engaged in manufacturing something while the other 80 percent are overhead, such as you and I, who unfortunately don't produce anything for our markets and the world markets.

Can we really prosper with our No. 2 steel producer having fewer employees than McDonald Hamburgers? What future for our children and grandchildren, jobs at McDonald's or Kentucky Fried Chicken?

Tax dollars should not be spent overseas to the detriment of the U.S. workers.

A final word, Senator. The United States of America is the only developed nation in the world that allows absolute free export of its dollars to be invested overseas. This is not helping the economy or the balance of trade in the United States of America, which could reach an imbalance of $120 billion in 1984. This transfers into for every $1 billion lost to foreign traders, about 25,000 American jobs disappear. Remember, also, for every 1 percent unemployment in the United States, the U.S. Treasury loses $30 billion in lost income taxes, through the payment of welfare aid to dependent children, et cetera. No wonder the high national debt. Just multiply 10 percent unemployment by $30 billion, and if we had everybody working, that would be another $300 billion, and we would no longer have a complete deficit every year.

Thank you so much for letting me come this morning. Sometimes it is difficult to get my remarks printed or even listened to.

Thank you again.

The CHAIRMAN. Thank you very much.

Mr. Ricks.

## STATEMENT OF DEL RICKS, PRESIDENT, OREGON STATE INDUSTRIAL UNION COUNCIL, AFL-CIO, PORTLAND, OR

Mr. RICKS. Del Ricks, president of the Oregon State Industrial Union Council.

I'm going to keep my remarks rather short because I think most of what I have to say has pretty well already been said; however, it is the concern of the industrial unions, which makes up most of the industrial type trades in the State of Oregon such as your steelworkers, woodworkers, clothing workers, communication workers, grain millers, et cetera.

We have seen what has happened with the exports and imports and most of it on the import side. We have seen our clothing industry lose hundreds of jobs right within this State due to imports. Basically, we feel it is time that something is done that rejuvenates our ability to produce things.

We've heard over the last few years that the Nation is becoming a service nation, not a manufacturing nation. We have some real concerns about that. Our question is becoming who are we going to service after awhile and where are we going to get the money to service them? Because if everything is just going to the hamburgers or the service type trades, somewhere you are going to have to have money produced in wages to buy these services. We feel if we are going to import everything and not manufacture anything, that is not going to occur.

As Stan Jensen said, we are well aware of what happens with the 1 percent, to the $30 million—and that is the 1 percent in rising unemployment costs—we see what happens to the budget annually, and we are very concerned and we would very much be in favor of Senate bill 707 so at least some of our American products are sold here.

I would also like to reiterate what Tom Arp said, because there seems to be a lot of concern about whether or not our neighbors overseas will trade with us, and I don't think there is any doubt in anyone's mind that the United States of America is the largest buyer of automobiles in the world. If we enact your content law, I don't think that any country is going to give up any of that market if they don't have to. They will comply with those laws and still go after that market. That is how they make their money.

So, I will close on that, saying that the industrial sector of the Oregon AFL-CIO, we are very strongly in support of this measure. Thank you very much.

[The statement of Mr. Ricks follows:]

### STATEMENT OF E.R. DEL RICKS, PRESIDENT, OREGON STATE INDUSTRIAL COUNCIL, EXECUTIVE DIRECTOR, LABOR COMMUNITY AGENCY, AFL-CIO

The Oregon economy has critical links to the auto industry. Its health affects our own health.

We all know that the timber industry is critical to Oregon. The fate of the timber industry depends on raising incomes and keeping down interest rates. If our nation lets the auto industry go down the tubes, we will see incomes fall and interest rates rise. That will come back to clobber the timber industry here.

The auto industry is critical to our nation's health. The auto industry today employs over two and a half million workers, including suppliers of parts and materials. If we don't do something about the problems of the industry, we can expect to lose over a million jobs over the next few years.

If we lose those million jobs, that will stifle our nation's growth. That would mean fewer homes and businesses are constructed. Less construction will mean a smaller market for Oregon's timber.

Losing a million jobs would also raise the nation's unemployment rate by one percent. The Congressional Budget Office estimates that each percent of unemployment costs the nation's Treasury around $30 billion in reduced taxes and higher benefit costs to the unemployed. Raising the federal deficit by $30 billion will raise interest rates.

This bill would also help the state's aluminum industry. Cars are using more and more aluminum all the time because it is lighter than steel and that raises mileage. At the same time, we, in Oregon, are very competitive producers of aluminum because we have less expensive hydropower. Under the content-requirements of the bill, the auto companies would get credit for the aluminum they buy here in Oregon. They may use that aluminum to produce cars in this country, in Japan, or any country they choose.

There has been a lot of misinformed talk about the effect of this Bill on jobs in the ports and at car dealers. We need to set the record straight.

This Bill would not reduce the total number of jobs at our ports. The Bill would increase the port jobs for unloading auto parts to be used in U.S. assembly. There would also be more jobs loading addition exports of parts and materials, like aluminum. Those two factors expanding port jobs would more than offset the fact that there would be somewhat fewer finished vehicles being unloaded here.

Opponents of this legislation have greatly exaggerated the number of port jobs involved in imported vehicles. A couple of years ago, Toyota put out a puff-piece that gave very generous estimates of its contribution to the U.S. economy. In that publication, Toyota estimated that its imports created 1800 jobs in ports and distribution nationwide. Since Toyota brings in about a quarter of all imported cars and trucks, no more than 7,200 jobs could be involved in distributing imported vehicles.

We can be confident that far less than 7,200 jobs are created by imported vehicles at our nation's ports. Toyota puffed up its number of 1800 to include distribution jobs in states like Nebraska, which didn't have a port the last time I checked. Since Toyota had every reason in its publication to give the highest number possible and clearly included many jobs away from the docks, the actual number of port jobs must fall far short of 7,200.

This Bill would increase not decrease the number of jobs at car dealers. Since the auto manufacturers—foreign and domestic—have all admitted they can comply with the requirements, no dealer should have to suffer a loss of sales with pasage of this Bill.

Let's get one thing straight: a Toyota dealer won't sell fewer cars if Toyota decides to produce many of its cars in this country rather than importing all of them. The same goes for General Motors dealers if GM is required to continue making cars here rather than drastically raising its imports.

On the other hand, a healthy American auto industry would mean a healthier Oregon timber and aluminum industry. That would mean that Oregonians would buy more cars and dealers would have more jobs.

The CHAIRMAN. Thank you very much.

Mr. Andrews.

## STATEMENT OF TONY ANDREWS, SECRETARY-TREASURER, TEAMSTERS LOCAL 305, PORTLAND, OR

Mr. ANDREWS. Chairman Packwood, Tony Andrews with local 305 with the Teamsters Union here in Portland. Ourselves, within the Joint Council of Teamsters, we represent probably about 700 members who are directly employed because of the importation of automobiles coming from Japan and elsewhere throughout the world.

I speak to you not only as an Oregonian, but as a person who represents a portion of those 600 jobs and also as those Oregonians who live and work here and spend their dollars that are earned by those jobs. I'd like for you to at least consider that, as labor as a whole, I guess my position and local 305's position is in opposition to S. 707, and as I disagree and I sit at the same table with my union brothers, that sometimes is a very, very hard position for me to be faced with. We are in opposition to that bill because of a comment that you had made earlier which I think needs to be repeated. We have to look at what this kind of legislation would, in fact, do to the State of Oregon, to southwest Washington, and I think that the implications of this kind of a legislative act would only be to the detriment of Oregonians.

Our people that work at terminal 4 and terminal 6 are employed in jobs that are good jobs. Oftentimes they work over 40 hours a week, sometimes they work less. Their area of wage rates range anywhere from $9 to $13 an hour. Those are good jobs in the State of Oregon. You know, everyone talks about the high technology being a good thing to have here in Oregon because it is a clean manufacturing type of atmosphere. The wage rates in those industries are nowhere comparable to the importation of these automobiles. Obviously, the importation of those automobiles provides Oregon with another type of industry that is a very, very extremely clean industry. I think if any of you have ever been down to terminal 6 or to terminal 4, you'll see that those lots that are used, those docks that are used, are probably among the cleanest within the city of Portland.

And just on behalf of these people, I hope that if this bill ever comes to a vote, that your vote will be in opposition to it. Thank you.

The CHAIRMAN. Thank you.

Mr. Stride.

## STATEMENT OF DENNIS STRIDE, CHAIRMAN OF PUBLIC RELATIONS COMMITTEE, INTERNATIONAL LONGSHOREMEN & WAREHOUSEMEN UNION, LOCAL 8, PORTLAND, OR

Mr. STRIDE. Mr. Chairman, members of the committee, my name is Dennis Stride from local 8, International Longshoremen and Warehousemen Union. I won't quote statistics or the detrimental impact that this legislation will have on the Portland waterfront. Historically, this type of legislation has been counterproductive and usually achieves the opposite of its intent.

We all like to build fences and if the American automobile people would like to show their economic position in this country, I suggest that it design and build a better mouse trap.

As you can see, we are definitely opposed to this type of legislation. Thank you.

The CHAIRMAN. Thank you very much, Mr. Stride.

Let me pose this question; Mr. Ricks, I will pose it to you. Does the Industrial Union Council represent the sawmill workers also?

Mr. RICKS. The woodworkers.

The CHAIRMAN. We have frequently said that we want logs to be made into finished products before they go overseas.

Mr. RICKS. Correct.

The CHAIRMAN. How does that differ from what Japan thinks about cars? They want to finish them into finished cars and send them here rather than bringing the parts here or the raw materials, in essence, and having them assembled here.

Mr. RICKS. Well, let me answer it this way, Senator. To my knowledge, we are still sending them raw logs, which means we have no restrictions when it comes to dealing with them, but yet they have restrictions dealing with us. Let's equalize it and say all right, fine, if you want to go one way, then go the other way.

The CHAIRMAN. You know, I have often wondered about that argument. I don't know if anybody here knows of Adolph Herteck up at Van-Port Lumber who is selling finished lumber overseas to the Japanese. He employs about 60 to 70 people. He is buying a second mill. About 90 to 95 percent of his total product is sent to the Japanese. His argument is that we can get into the Japanese market. We are going to have to mill and cut to their standards.

When I first knew him, he had Japanese inspectors here who were not sure that he would turn out the kind of product that they needed. The inspectors were on the grounds, looking and grading his pieces as he was turning them out. They have now left. They take his word for it.

His argument is that you can get into their market if you are willing to speak their language and cut to their dimensions and give them the kind of high, high quality finished product they want for that interior post and beam residential construction.

Mr. Ricks. I am not familiar with his operation, Senator, so I can't really speak to what means he used to get into the supposed Japanese market. But I have heard this argument in the past. So far it doesn't seem to hold too much water because, if it did, I am sure that most of our multinational logging firms would be in the market then.

The Chairman. I ran across him—just as an aside—when he first had a problem with the Internal Revenue Service because he had built a Japanese tea house at his mill as an example of what his lumber could be used for. He had a fair number of Japanese buyers coming through. The Internal Revenue Service said that was not a necessary expense for your sales purposes. He won his battle with the IRS, explaining to them that he wanted to show his product and he was selling it for this purpose. I just find the man very astute and interesting. He is either Swiss or German by nationality and still speaks with an accent. I have a very, very vivid impression of a lunch I had there one day with Adolph speaking in his German-English accent, the manager of my operations in Oregon, Elaine Franklin, whose background is English speaking in an English accent, a Japanese businessman there speaking in a Japanese-English accent, and me; and it was a most interesting go-round. Anyway, he manages to succeed in the Japanese market.

Mr. Ricks. May I say one other thing on that?

The Chairman. Yes.

Mr. Ricks. There is a difference in viewpoint on the exporting of law logs, depending on who is doing the exporting. The timber owners themselves in most cases I think you will find only consider where they get the highest price.

The Chairman. You mean the owner of the timber?

Mr. Ricks. That is right.

The Chairman. Yes, I understand that.

Mr. Ricks. That is what I am saying. And we are concerned about the jobs that are exported overseas.

The Chairman. In this case, Mr. Herteck doesn't own any timber. He is a buyer like any other mill owner is, so his interest is clear.

Irv.

Mr. Fletcher. Not to get into the log exports entirely because that is another issue, but in the hearings that were held in Salem—and you know we had a bill in, the antisubstitution bill—the small mill owners in this State strongly supported a ban on log exports. The giants of the industry are the ones who export and who now find it much more financially feasible to export the logs rather than to export the finished product. But, those of us who are involved with the jobs end of it understand there is a multiplier of something like 10 to 12 to 1; jobs you have in exporting, of course, which longshoremen and some truckers and fallers are involved in, but there would be a lot more jobs for those same people if you are exporting the finished product, and that is what we would support in this State.

The Chairman. Mr. Arp, let me ask you this. We have with the European Common Market nations a slightly favorable balance of trade. It is with Japan, with the oil exporting countries and, ironically, with Canada, although that is principally because of the Canadian-American Auto Pact, where we have big deficits. Why is it the Japanese have been able to crack our auto market very successfully, and yet the European automakers, by and large, have not? Now, I realize you can buy BMW's and you can buy European-made Volkswagens and a few Jags, but by and large they have not been overwhelmingly successful. Why the difference?

Mr. ARP. My opinion is if you look at this history of Japan, they get into an area and they target that particular industry. They do all the research and the development of that particular industry. They send people here to research, as you were saying, about logs, and they do it very well. Then they form their industries into what I would consider to be conglomerates to attack those particular things, so that they can penetrate those markets. After they have penetrated them, then they leave.

The CHAIRMAN. But Europe does the same thing.

Mr. ARP. I don't think the same as the Japanese. Europe has those laws to protect. Italy allows 2,000 Japanese cars. Japan can't penetrate their markets the same as they are penetrating ours. They don't allow them to do that.

The CHAIRMAN. No, I didn't mean the penetration of their market. I meant the European penetration of our market. Europe has tried to target their auto industry. They know it can be a good dollar earner. They just haven't been as successful at it. Why? Mr. Jensen.

Mr. JENSEN. Yes. Senator, it's our view—and I mentioned in my remarks the fact that in Japan they got not only triple the price of our products, they quadruple them. They have virtually no unemployment. Everybody pays taxes over there. I mean, if you have got a society where we had everybody employed, the Federal Treasury would be $300 billion a year ahead. I believe in fair trade, but if they are going to quadruple the price of our products—and in 3 weeks in Japan last year, I found only one American product. I found a little pat of Kraft jam in one restaurant. In the rest of them, the jam pats were produced over there. They've got onto that, too.

They look at anything coming into their country. They say do we produce it? No. Let it in and get into production. Or yes, we produce it, triple the price, and they have figured out a way to do it. I am telling the truth.

It is no different where my forefathers came from in Denmark. I mean, you go there and try to buy an American vehicle, they will triple the price on you, add up all kinds of taxes, everything else, on it.

Now, that is why our cars are not found overseas—it isn't that nobody wants a Mustang or a Cadillac in Japan. They just make the price so absolutely outrageous that nobody will buy them, and the same should be true here.

The CHAIRMAN. Let me ask you this. Japan, although they don't export it to this country, makes a very limited number of what we would call luxury cars, large cars.

Mr. JENSEN. Yes.

The CHAIRMAN. Isn't it true that those cars sell for the same price in Japan as our equivalent large cars?

Mr. JENSEN. Probably.

The **CHAIRMAN**. It is not that they are discriminating against American big cars. They discriminate against big cars generally.

Mr. **JENSEN**. But why is it when I stood on a corner in Tokyo for 2 hours and looked for American cars and saw only two, one a 1955 Chevy and a 1960. That is all. In Denmark I asked why no American cars, why do you charge so much? Who buys them? They said members of your Embassy—there are 700 of them over there—they get a break on them. That is why we carry them. Now, I'm telling you, they are not buying our products around the world. That's the truth, and, you know, they hold hands with each other. Japanese are Japanese. They love their flag. They love their country. In Portland—in Oregon right now I would venture to say 60 percent of the cars out here on the highway are foreign cars. We're all mixed up. We ought to love each other more than anybody by supporting the American worker.

The **CHAIRMAN**. Should we follow the philosophy not only of domestic content in automobiles, but as to steel also?

Mr. **JENSEN**. Absolutely. Remember, Japan has no raw materials—no lumber, no steel. They use melted down old cars to produce their new ones or they buy the raw materials from Australia. They don't buy from us.

The **CHAIRMAN**. Should we follow the same view as to textiles?

Mr. **JENSEN**. Textiles? I think that we should get back into fair trade.

The **CHAIRMAN**. No, I mean in terms of domestic content. Should we require the textiles basically to be made here?

Mr. **JENSEN**. Absolutely. I want to see our 10 percent unemployed or 10 million American workers back to work. I am an American.

The **CHAIRMAN**. The same as to footwear?

Mr. **JENSEN**. Yes. Eighty percent, which now comes from around the world. Everything.

I was in a war for 4 years against Japan and Germany and, you know, I didn't like wasting 4 years of my life running around with a uniform so long I thought I looked good in it. Now we're allowing imports to take our jobs. We rebuilt those nations, the great humanitarians we are. But I am telling you we are going to find all of a sudden people are not going to be able to even buy the foreign imports because of reduced lifestyles.

The **CHAIRMAN**. Well, basically you are saying that we should really have domestic content legislation for almost all manufactured goods.

Mr. **JENSEN**. Absolutely.

The **CHAIRMAN**. And they ought to be made in this country rather than be imported, regardless of whether the imported goods might be cheaper.

Mr. **JENSEN**. I think we should demand fair trade.

The **CHAIRMAN**. Let me ask you this. Why is it we have been successful, by and large, with Europe? We have a slightly favorable balance of trade with the European Common Market countries. Why are we able to do adequately there?

Mr. **JENSEN**. Because they have much of the same problems we do. They have massive unemployment in England. They have massive unemployment in Scandinavia.

The CHAIRMAN. Does that account for why we are able to have a slightly favorable balance of trade?

Mr. JENSEN. They have to do the same as we do. They have to pay unemployment insurance. They have to pay aid to dependent children. They have to pay for people that can't get a job. In England they say it is "on the dole'.

The CHAIRMAN. Then you come to this conclusion: If Sweden, Great Britain, West Germany, Italy, and France all had, not only just limitations on Japanese cars, but domestic content laws also for textiles and chemicals and steel, all their unemployment would all go away and ours would all go away and the world would be better off.

Mr. JENSEN. If we traded fairly, Senator, it would go away. We can still trade, but we can't let somebody quadruple the price of our products and sell their own products over here even at a loss, cheaper than they sell them to their own people, just to keep their people employed.

The CHAIRMAN. Come back again to Europe. We have a slightly favorable balance of trade with them.

Mr. JENSEN. Right, uh-huh.

The CHAIRMAN. Do we have fair trade with them?

Mr. JENSEN. No.

The CHAIRMAN. How do we manage to have a favorable balance of trade then?

Mr. JENSEN. Well, for one thing, we are still exporting a great deal of food around the world. The Oregonian had it on their financial page, with a graph, on those things that we are importing, and autos were No. 1. The No. 1 export, wheat.

The CHAIRMAN. Although, as a matter of fact, our food exports to Europe, per se, are not overwhelming.

The CHAIRMAN. They are to Asia.

Mr. JENSEN. Yes.

The CHAIRMAN. They are tremendous.

Mr. JENSEN. That is true. Well, still, if they manufacture automobiles, they are not going to let ours in for fair trade, and for that reason, you don't see our automobiles in Europe either.

Remember, this was our No. 1 industry. More people were employed in the manufacture of automobiles than any other manufacturing in the United States.

The CHAIRMAN. Let me read just a summary of a statement from the Director of the Congressional Budget Office, Rudolph Penner, and this is a summary of his testimony in which he says as follows:

> A reasonable estimate of S. 707, which is the bill we are considering, 707's effect on foreign and domestic auto producers would be a reduction of 1.1 million imported autos to be replaced by only 600,000 U. S.-produced vehicles. Employment in auto and auto-related industries would correspondingly increase by more than 100,000 by 1990. The net effects, however, of S. 707 for the U. S. economy, measured in terms of real economic growth, inflation, employment, efficiency, and consumer welfare, would be negative, though small. The resultant smaller output would be distributed in favor of the beneficiaries of the legislation, the auto and auto-related industries, at the expense of the rest of the economy.

I think he is absolutely right and I think if you are looking at it from a standpoint of Oregon, Oregon is going to be the loser, and I am not going to stand by and see jobs that we have in Oregon distributed back to Detroit or distributed to southern California where they assemble automobiles, while I see people on the docks who now have jobs losing those jobs and going. It isn't fair to them. It isn't fair to this State.

Mr. JENSEN. May I make one final comment?

The CHAIRMAN. Yes.

Mr. JENSEN. And it is not just automobiles. You are absolutely right. You know, down at FMC we produced boxcars. Seventy-five percent of the boxcars used in this United States, and that is a pretty big item, are now being produced overseas.

I mentioned Boeing. We still have 1,000 people working for Boeing in Portland. When I tell you that they are going to build, with Boeing technology, build a new 150-seat airplane in Japan, where we are already receiving many of the parts for the 767; that we are going to assemble 737-300's, Boeing's newest airplane, in China. That is our last No. 1 industry. I am not just talking—you know, we don't make a typewriter we formerly produced. We don't make a sewing machine. There are 5,500 items we formerly produced. We don't make a light bulb except in very small quantities. I mean, this whole thing—domestic content is the one thing that is before us to try to protect American jobs.

The CHAIRMAN. Let me ask you this. How does this country of 100 million people manage to have us not only in this bind, but apparently all the rest of the world? I will say it again. We have a favorable balance of trade with Europe. You say well, that is because they don't have domestic content laws and they have high unemployment. We have a negative balance of trade with the oil exporting countries, understandably. No matter how much we sell them, they can't possibly buy from us as much—their populations are small—as much as the value of the oil. We have a disparate trade with Canada because of the Canadian-American auto pact of almost 15 years ago now, where we let lots of cars into this country, duty-free, produced in Canada, most of whom are produced in GM, Ford, and Chrysler plants. They are organized by Mr. Arp's union in Canada.

But, do you mean to tell me this country, with twice the gross national product of Russia, almost three times the gross national product of Japan, a high level of education, a trained labor force, an immense ability to attract capital, cannot compete with the rest of the world any longer?

Mr. JENSEN. Why are only 1 percent—you are interested in this because I happen to know your record—1 percent of all the ships on the high seas fly the American flag? Three percent of all the shipbuilding tonnage is now produced here. We have given it all away. What happened to all the shipyard workers, Senator? Where are they at?

Let me tell you. If somebody puts an embargo and says I am sorry, we are not going to let you use your ships in and out of this country, we would be in a disaster area. Believe me, we would. I think some of your family was very active in shipbuilding.

The CHAIRMAN. Yes, but that was in 1750.

Mr. JENSEN. Oh, I am sorry about that, 1750. But we are losing the skills daily to build a ship.

Do you know today there isn't one merchant vessel being built in the entire United States? Not one.

The **Chairman**. Why is that?

Mr. **Jensen**. I want to tell you. Because multinationals are exporting our jobs everywhere else. They say they can get it done cheaper over there.

The **Chairman**. Well——

Mr. **Jensen**. And so, more and more of our people are unemployed. We have to have protectionism to protect our own people rather than see our standard of living—do you know what the average wage rate is now in the State or Oregon?

The **Chairman**. I know what it is. What do you think it is?

Mr. **Jensen**. $4.88 per hour.

The **Chairman**. Oh, I understand that. But per hour? I have never seen that figure before.

Mr. **Jensen**. Well, I have.

Mr. **Fletcher**. Senator, remember, one of the largest employers is McDonald's. Does that help you average that out?

The **Chairman**. Well, that's right, if you are talking of all the service industries.

Mr. **Jensen**. You know, Senator, I am going to retire next year and I beat my brains out trying to talk to bright, very intelligent men like you that many times are on the same side I am.

But this is one subject, for the life of me, our citizenry, giving all our jobs everywhere in the world—today, a new Ford Motor plant, $500 million they are investing in Mexico to build Ford engines.

Right today General Motors has a deal with Subaru to build a huge plant in India. We can't match those wage rates.

The **Chairman**. Boy, you have got an entirely different view than I have. Have we reached the place in this country where we cannot compete with the rest of the world? If we want to sell automobiles to Argentina or if we want to sell oscilloscopes out of Tektronix to Brazil, you can't tell me we can't compete and we can't sell.

But in order for us to do so, they are going to have to have some kind of income from trade for things they sell or they can't afford to buy from us.

I will still match this country against any country in the world in terms of its ability to produce, the intelligence of its labor force, its ability to amass capital; and give us any shot, as we have in Europe, at reasonably equal trade and we will run the socks off of them.

Mr. **Jensen**. Equal, yes, but you know right today 82 percent of the country are overhead, like you and I. Produce nothing. There are only 18 percent of the people out there working producing something.

The **Chairman**. On that statement, I am afraid the whole audience may agree with you.

Mr. **Jensen**. OK, all right.

The **Chairman**. I think we should get off that topic right away.

Mr. **Jensen**. If I sound like I have been trying to make a point, I have been trying to make it for a long time, and—you know—I want to tell you somewhere along the line, whether it be now or 10 years down the road, you are going to think, when we have lost our last No. 1 industry, the aerospace industry, you are going to start saying, well, we better put somebody back to work.

I am not saying we shouldn't import, but on an equal basis, and not let somebody quadruple the price of our vehicles and we let them dump theirs in here cheaper than they sell them to their own people. I say that is unfair.

The CHAIRMAN. Let me say one thing in closing. I have said this to enough Japanese officials publicly, I can say it here.

Japan is unfair. Japan for years has wanted it both ways. They have wanted to produce and export, and import relatively little. One day—and I think this legislation is symbolic of it—one day there is going to be a reaction in this country if they do not lessen their restrictions. We would not have this legislation before us if the only import-challenge of any consequence we were facing was from Europe.

We can compete with Europe and we can go toe to toe with them. We can beat them. They will beat us on some things. We will beat them on some things.

But one day, Japan must realize that trade means trade, it doesn't mean one-way sales and limited access. You know, we can't even invest in their country in most cases, let alone sell them things.

Fortunately, an agreement has apparently been reached—it hasn't been announced—about the so-called internationalization of the yen. Its current undervalued basis will be gone and it will be traded on normal markets like other currencies, and it will clearly cause Japanese exports to become more expensive.

So long as they can keep their currency low and they can keep their manufacturing costs, therefore, low because of it, they could clearly have an advantage. That is gone.

But I want you all to think long and hard, because this issue is going to come back in Oregon time and time again, about whether or not you want to move to the so-called unfair tax system that they have, which is basically wholesale sales taxes, and those are rebated at export.

If you want us to be competitive with the rest of the world, then you probably ought to support us going to that kind of a tax. If not, I think you ought to be very careful before you are critical of the other countries that have that form of tax unless you want us to go to it also.

Mr. JENSEN. I want a future for my children, my grandchildren, and my great grandchildren. Even the doctors, attorneys, and others are going to suffer when the working man is out there and can't pay their bill. We can't negotiate health and welfare. The only developed nation in the world, aside from South Africa, that doesn't provide cradle-to-grave health care for their citizens. To me, that is a disgrace, Senator.

The CHAIRMAN. Gentlemen, thank you very much.

Mr. JENSEN. Thank you.

The CHAIRMAN. Good panel.

While we are waiting for the next panel to come up—and that is Hal Bracken, Tom Elliott, and Henry Martin—let me read into the record a few more organizations that want their statements placed here. The Multnomah County Labor Council, AFL-CIO, is for the legislation. The Supercargo & Clerks Union, Local 40, is opposed.

Teamsters Local 692 is opposed. Teamsters Local 305, already represented here, is opposed. Teamsters Local 37 is opposed.

Good morning, gentlemen.

Mr. Bracken, why don't you go ahead?

## STATEMENT OF HAROLD BRACKEN, GROUP VICE PRESIDENT, TOYOTA MOTOR SALES, U.S.A., INC., TORRANCE, CA

Mr. **Bracken**. Thank you very much, Mr. Chairman and members of the committee. My name is Harold A. Bracken. I am a group vice president of Toyota Motor Sales, U.S.A., headquartered in Torrance, CA. We call our company TMS/USA.

We welcome this opportunity to testify today on the Fair Practices in Automotive Products Act, legislation which would represent a giant step backward on the road to U.S. economic recovery and a competitive U.S. auto industry for consumers and producers.

My comments will summarize the points of view in the written statement already provided to the committee, but, Mr. Chairman, I would like the entire written version included in the record.

The **Chairman**. As I have said to all of the witnesses earlier, your entire statement will be in the record as if it was read.

Mr. **Bracken**. Fine, thank you.

At the outset, let me say a few words about our company. TMS/USA imports Toyota automobile products and markets those vehicles through 1,081 independent Toyota dealers around the country. Our wholly owned subsidiary, Toyota Motor Manufacturing, in Long Beach, CA, this year will produce its 1 millionth truck bed for Toyota trucks. It was the first major components manufacturing facility owned and operated by an auto importer in the United States.

TMS/USA, TMM, and our dealers and distributors around the country employ over 40,000 people. We spend nearly $2 billion each year in payroll, supplies, advertising, taxes, and duties, and utilize land, facilities, and equipment worth nearly $1.5 billion.

Today, the import auto industry in the United States employs more people than Mobil or Exxon. It pays more in wages than all iron and steel foundries in the country. It spends more on advertising in the United States than the travel, hotel and resort industries combined.

To illustrate this economic contribution, let me briefly describe our activities here in Portland and in the surrounding region. The Port of Portland is the largest port of entry for Toyota vehicles in the United States.

Last year 156,000 Toyota vehicles entered the United States through your excellent port. Each of those vehicles generated substantial economic activity.

When a vehicle enters the Port of Portland, it is unloaded by a longshoreman, inspected by a professional surveyor, and temporarily stored in our port facility. Steamship, insurance, and wharfage fees are paid, as well as customs duties. This first phase of importing generates $408 per vehicle for the U.S. economy.

Each vehicle is then processed, which includes cleaning, repair of any damages and installation of our truck cargo beds made in Long Beach, CA, and many accessories such as air-conditioners radios, and speakers, and truck bumpers. Each car is carefully inspected for quality assurance. This processing stage generates another $62 in economic activity for each vehicle, not including U.S.-sourced accessories which amounted to over $150 million nationally last year. Finally, the vehicle is shipped to the dealer at an average transportation cost of $250 per vehicle.

For the 156,000 Toyota vehicles imported through Portland last year, this port-related activity generated $112 million in economic contribution to the U.S. economy.

If the legislation before you were enacted into law, it would have a devastating impact on this port-related import activity. Using the estimate of Wharton Econometric Forecasting Associates that overall auto imports would decrease by 19 million 6 years after enactment, the U.S. economy would be deprived of $1.4 billion in port-related auto import revenue alone.

The cost of this legislation to the regional economy goes beyond its impact on ports. Over 2,300 Americans are employed in Toyota dealerships in our Portland five-State region which encompasses Oregon, Alaska, Montana, Utah, and Washington. Those jobs, too, would be largely sacrificed for the questionable benefits this legislation would yield.

Mr. Chairman, beyond this direct economic activity, there is another dimension to the contribution auto imports have made to the American economy: the benefits that are derived from vigorous and open competition. Competition has helped stimulate the domestic industry to retool and revitalize, resulting in the most profitable year in domestic-auto-company history in 1983, with the promise of even better to come. Competition has given American consumers the broadest product choice in the world, and vigorous competition holds down prices for the American consumer.

Mr. Chairman, we don't need a crystal ball to see what will happen if this bill is enacted. Auto prices will soar and overall demand will fall. American consumers are already suffering from sticker shock. If domestic content becomes law, it would send them into sticker paralysis.

We already have a sad example of what happens to the American auto consumer when that competition is artificially restricted. Americans are paying far more for their new cars today than before the voluntary-restraint agreement was imposed. A soon-to-be-released study by the Brookings-Institution attributes at least $400 of that increase directly to the VRA.

Let's be clear about something else: This is not a jobs bill, as its proponents claim. It is a job-transfer bill, and a net loss one at that, sacrificing far more jobs for dock workers, exporters, and those working in agriculture and the auto-import industry than it ever will create in the domestic auto sector.

Mr. Chairman, at the opening day's hearing Senator Danforth said: "there's no free lunch in world trade." We agree, and this legislation is a perfect example. It would ask the dock worker in Portland, the import-car salesman in Missouri, the farmer in Nebraska, the machinest at Boeing in Seattle, and American consumers from Maine to California, to sacrifice their pocketbooks—and, in many cases, their jobs—to give protection to an industry whose products are in strong demand and whose profits have broken all previous records.

Thank you.

[The statement follows:]

STATEMENT OF HAROLD A. BRACKEN, GROUP VICE PRESIDENT, TOYOTA MOTOR SALES, U.S.A., INC.

Mr. Chairman, Members of the Committee, my name is Harold A. Bracken. I am Group Vice President and an Officer of Toyota Motor Sales, U.S.A., Inc. (TMS/USA) headquartered in Torrance, California.

We welcome this opportunity to testify before this Committee on the "Fair Practices in Automotive Products Act" (S. 707) legislation which would represent a giant step backward on the road toward U.S. economic recovery and a competitive auto industry for American producers and consumers.

At the outset, let me say a few words about TMS/USA. TMS/USA is an American corporation that imports Toyota automotive products into the United States. Directly, or through independent distributors, we also distribute our vehicles to 1,081 authorized Toyota dealers who are independent American entrepreneurs.

Toyota Motor Manufacturing (TMM), a wholly owned subsidiary of TMS/USA, manufactures truck beds in Long Beach, California. TMM, which employs 400 persons and represents a $50 million investment, is responsible for the manufacture of cargo beds for virtually all Toyota trucks sold in the continental United States. Established in 1972, TMM was the first major components manufacturing facility owned and operated by an auto importer in the U.S. In the last twelve years, more than $54 million in wages and salaries have been paid to TMM's American workers, who are represented by the Teamsters Union. This year, TMM will produce its one millionth truck bed.

TMS/USA, TMM, and Toyota dealers and distributors in the continental United States directly employ over 40,000 people; annually spend nearly $2 billion on payroll, advertising, taxes, supplies, and customs duties; and make use of land, facilities, and equipment worth nearly $1.5 billion.

Mr. Chairman, it has been traditional in some quarters to think of imports as a threat to American economic activity and vitality. For several reasons, however, this is especially untrue in the auto sector. First, the import auto industry makes a substantial and growing direct contribution to the American economy, directly employing 163,000 Americans, paying annual wages in excess of $3 billion, contributing more than $4 billion to the U.S. economy in the purchase of U.S. goods and services, and owning almost $6 billion in U.S. assets. To put this in perspective, the import automobile industry employs more Americans than Mobil or Exxon, pays more in total wages than all iron and steel foundries in the U.S., and spends more on U.S. advertising than the travel, hotel, and resort industries combined.

Second, import competition has greatly benefited the American consumer. The import auto industry has introduced new products, such as small trucks and fuel-efficient cars, providing greater product choice to the consumer and exerting downward pressure on prices.

Finally, and equally importantly, import competition has served the long-term health of the domestic auto industry, helping to stimulate and foster the emphasis on productivity and innovation that has contributed to the remarkable turnaround we have seen in that industry in recent years.

Remove that competitive pressure, as domestic content legislation most assuredly will do, and those significant contributions will vanish. We will see vastly higher prices, a less competitive domestic auto industry, severe cutbacks in import auto industry-related employment and investment, and diminished choice for American consumers.

Today, I want to describe for the Committee these contributions of the auto import industry to the American economy. In particular, since the Port of Portland is the largest port of entry for Toyota vehicles into the United States, I want to describe for the Committee the considerable economic activity that surrounds an imported vehicle from the moment it reaches the dock to the point it reaches the consumer. These direct contributions to the U.S. economy, together with the benefits of healthy competition in the U.S. market, would be substantially reduced if the legislation before this Committee were enacted into law. At each phase of the import, processing, and distribution of a vehicle, contributions are made to the U.S. economy by the employment of American workers, the purchase of U.S. services, and the payment of U.S. taxes.

### FROM DOCK TO CONSUMER: CONTRIBUTIONS TO THE U.S. ECONOMY

Toyota vehicles enter the continental United States in seven states—Oregon, California, Florida, Maryland, Massachusetts, New Jersey, and Texas. At these points of entry, and at an inland facility located in Chicago, these vehicles undergo extensive processing for distribution to dealers. These processing facilities represent an investment worth nearly $90 million.

In 1983, 738,500 Toyota vehicles were imported into the United States. The services generated by the import, processing, and distribution of those vehicles pumped over $360 million into the American economy last year.

The Port of Portland processed 156,000 Toyota vehicles in 1983, 21% of the total number of vehicles Toyota shipped to the continental United States from Japan that year. The processing of Toyota vehicles at Portland generated $112 million for the U.S. economy—ranging from payments to railroads, trucking, and stevedore companies to custom duties, insurance premiums, handling and terminal charges, rent expenses, property taxes, and fees to the port warehouse operator.

Let me describe this economic activity in more detail. The first phase of the import of a vehicle involves its transfer from the ship to the dockside parking lot, and the payment of U.S. custom duties insurance premiums, wharfage and steamship company fees. Longshoremen who drive the vehicles from the ship to the parking lot, and professional surveyors who inspect the vehicles, likewise receive fees for their services. This phase of the operation costs Toyota an average of $408 for each vehicle.

During the second, or processing, phase of the import operation, the vehicles, still in the port facilities, receive repairs for any damages incured during shipping, which I might note are rare. Accessories such as air conditioners, radios and speakers, roof racks, mirrors, truck bumpers, stripes and logos are installed. Most of these accessories are American-sourced. Gasoline is pumped into the vehicles. They are washed and dewaxed. Truck beds, manufactured by Toyota in Long Beach, California, are installed on cab/chasis. Finally, vehicles receive a comprehensive "Quality Assurance Inspection." This processing phase generates an average of $62 worth of services per vehicle. I would note that this amount does not include the value of port-installed accessories; last year, for example, TMS spent $158 million on U.S.-sourced accessories.

In the third and final phase, Toyota vehicles are shipped by truck or rail from the port of entry to the dealership. The average transportation cost is $250 per vehicle.

The U.S. payments generated by the import, processing, and distribution of Toyota vehicles, exclusive of accessories, average $720 per vehicle. The Port of Portland handles 156,000 Toyota vehicles in 1983, which translated into slightly over $112 million worth of value added to the U.S. economy.

Let me put this in broader perspective. In 1983, Japanese automakers shipped approximately 2.2 million cars and trucks to the continental United States. Based on Toyota's experience, these imports would have generated $1.6 billion of payments in duties and port-related services alone—income to American workers, American businesses, and the American government. In its 1983 study of the probable effects of the enactment of domestic content legislation, Wharton Econometric Forecasting Associates estimated that Japanese import volume would decrease by 900,000 units the first year after the bill went into effect. Thus, only 1.3 million Japanese cars and trucks would be shipped to the U.S. that year, slashing the dollar value of the port-related economic activity generated by the import auto industry by almost two-thirds of a billion dollars. Six years after the bill went into effect, when 1.9 million fewer Japanese cars and trucks would be imported into the United States according to the Wharton study, the U.S. economy would be deprived of $1.4 billion in port-related economic activity. This amount, I should note, does not include the dramatic decrease in port-related revenue that would result from a corresponding decrease in American exports, as other governments retaliate against American goods.

The health of ports and port-related industries, in Portland and around this nation, clearly depends upon a brisk and uninterrupted flow of goods between the United States and other countries. Domestic content legislation, which would severely limit that flow, would wreak havoc upon these industries, and on the workers and families dependent upon this trade for their livelihood.

The direct contribution that Toyota, and auto imports in general, make to the local and regional economy in the Northwest extends beyond the activity generated at the Port. Toyota maintains a regional office on Northeast 87th Avenue in Portland, and operations in Toyota's Portland region—which encompasses the five states of Alaska, Montana, Oregon, Utah, and Washington—include 72 dealerships employing 2,326 people and maintaining an annual payroll of nearly $47 million. Over

32,000 Toyota cars and trucks were sold in this five-state area in 1983, and a central $8.4 million parts inventory, located at the Portland regional office, services the buyers of these vehicles. These small businesses paid $3 million in income taxes and $6 million in other taxes in 1983, not to mention taxes paid by their employees.

Let me reduce these aggregate figures to the level of an individual dealer. The typical Toyota dealership—located in Portland, Oregon, or Sioux City, Iowa—represents an operating investment of over half a million dollars, and has thirty-five employees with an annual payroll of $710,000. The average dealership purchases local advertising to the tune of over $200,000 per year.

As a small business, the typical Toyota dealership pays income and a variety of other taxes, which average about $115,000 on an annual basis. The dealership's service department is visited 20 times a day, or 4,685 times a year, by local customers seeking warranty and paid services.

In short, the import auto dealership is a small, entrepreneurial enterprise in the best American tradition. It employs local residents, purchases goods and services from other businesses in the area, and pays state and federal taxes. There is no question that the enactment of domestic content legislation would force many of these local businesses to close their doors.

## IMPACT OF DOMESTIC CONTENT ON U.S. ECONOMY AND AMERICAN CONSUMERS

Beyond the auto import sector, domestic content legislation would have a variety of other damaging effects on the U.S. economy and the American consumer if enacted. Consumer choice would be severely limited; auto prices and inflation would rise; unemployment elsewhere in the economy would increase; and the long-term competitive position of American automakers would erode.

Estimates of economic studies of the legislation vary somewhat as to its effect on the level of imports. Wharton Econometric Forecasting Associates estimated that 1.9 million fewer Japanese vehicles would be shipped to the United States six years after domestic content legislation went into effect. Temple, Barker and Sloane, a research firm located in Lexington, Massachusetts, recently completed a study that concludes that, if content had been law in 1982, 1.2 million fewer Japanese cars and trucks would have been imported into the United States that year.

Reductions in this range would mean dramatic increases in the prices of both domestic and import automobiles. All non-union-affiliated experts agree that the increase would be substantial: anywhere from $333 to $1,300 per vehicle. Wharton analyzed the effect of the bill on prices in each market segment, and concluded that the steepest hike, of 43%, would be on imported subcompacts, and that the smallest increase, of 7%, would fall on full-size and domestic luxury automobiles. Light trucks would go up 25% in price. (See Table I.) Translating this into concrete terms, it means, for example, that the price of a subcompact Chevy Chevette 4-Door would increase by 25% from about $5,000 to over $6,800, and the price of a Toyota Tercel Five-Door would rise by 43% from about $6,300 to over $9,000. That is a steep price to ask an American family to pay for the questionable benefits of this legislation. Consumers already are suffering from "sticker shock." If this legislation were enacted, it would send American consumers into "sticker paralysis."

We do not have to look into an economic crystal ball to see the direct effect on auto prices of limiting import competition. Unfortunately, we have an ongoing example of what can happen when competition is restricted—the present experience under the so-called voluntary restraint agreement that has limited Japanese imports since 1981.

Under extreme pressure from the United States government, Japan agreed in 1981 to limit the number of cars it exported to this country in order to provide U.S. automakers with "breathing room" to regain competitiveness and to revise their product offerings. American consumers have paid a heavy price. The Department of Commerce reports that the average transaction price of a new car rose by 18.8% *more* than the CPI between 1979 and 1983, while during the preceding four years that figure rose by only 4%. While it took an average of 27.9 weeks wages in 1973 to buy a new car, and 31.2 weeks wages in 1979, today it takes 36.6 weeks wages to make the same purchase.

Some of this price increase reflects a shift of American consumers to larger cars. But a soon-to-be released study by the Brookings Institution concludes that at least $400 of this increase per car is directly the result of the VRA.

The prices of domestic as well as Japanese automobiles have risen dramatically under the umbrella of the VRA. (See Table II.) Murray Weidenbaum, former chairman of President Reagan's Council of Economic Advisers, believes that American consumers have already paid $5 billion more for automobiles under the VRA than they would have in a free market. As a direct result of these price hikes, more and more Americans are closed out of the new car market.

The point I want to emphasize is this: we have seen what happens to auto prices when competition is artificially restricted as it has been under the VRA. But domestic content legislation would result in far greater import cutbacks than the VRA. The major auto importers simply cannot meet the domestic content levels imposed by this bill even with major new investments in the U.S. And if they do not meet these levels, the measure operates as a quota bill, pure and simple.

The "bargain" offered to foreign automakers under the bill is this: invest billions more in the United States and we will promise you that your market here will be severely cut back. It makes no sense for foreign automakers, and, more importantly, it makes no sense for American consumers who will pay far more for their cars and have far fewer models from which to choose.

Proponents of domestic content legislation argue that the bill would preserve, and in fact create, American jobs. Just the opposite is true. The decline in import sales brought about by the enactment of this legislation would force the closure of import auto dealerships and the loss of tens of thousands of jobs in ports and port-related industries. Based upon the estimates of Wharton and Temple, Barker and Sloane, it can be concluded that 1,900 import dealerships would be forced to close and that 47,120 dealership jobs would be lost as a direct result of domestic content regulations. Within twelve months, over 30,000 port and port-related jobs would disappear. Tens of thousands of additional American jobs would also be lost in the U.S. exports industries caught in the protectionist crossfire that enactment of this legislation would unleash.

Three leading studies of the effects of the bill—conducted independently by the non-partisan Congressional Budget Office, the Department of Commerce, and Wharton—concluded that the net employment effect of the enactment of domestic content would be a decline in jobs of between 66,000 and 365,000. (See Table III.) Temple, Barker and Sloane estimated that the 37,000 auto jobs created by the enactment of the bill would cost American consumers $3.3 billion, or roughly $90,000 per job. How can we ask the average American to pay this enormous price tag to benefit an autoworker who already makes 50% more than the average manufacturing worker in the U.S.?

Domestic content legislation would shield American automakers from the real-life competitive pressures of the world marketplace. Competition from imports has been a healthy stimulus to the American auto industry, prompting its revitalization and restoration to sales and financial health. Detroit's Big 3 have realized all-time record profits in 1983. For the first quarter of 1984, they reported a record $3.2 billion in profits and its is projected that 1984 profits will exceed a staggering $10 billion. Detroit has invested billions of dollars in retooling outdated production facilities. The result is more efficient companies that can produce high-quality vehicles at lower break-even points.

Competition has translated into other benefits for American consumers. Import competition has resulted in greater product choice. Japanese automakers, for example, developed a U.S. market for light trucks. Originally, U.S. automakers did not compete in this market. Today, they have developed a competitive product that outsells the imports in the U.S. market. Similarly, Japanese automakers led the way toward smaller, fuel-efficient cars in the U.S. and U.S. manufacturers have followed suit. These are the results of free and open competition, and the American consumer has been the beneficiary. Take away that competition, as domestic content legislation would do, and the inevitable result will be greater inefficiency, less choice and innovation, and higher prices.

Finally, Mr. Chairman, this legislation is not an investment bill: it is a disinvestment bill. Japanese automakers have demonstrated considerable willingness to invest in the United States, as evidenced by the $1.4 billion they have to date committed to this country. Honda has built an auto manufacturing facility in Ohio; Nissan a truck plant in Tennessee, which soon will be making cars; and Toyota Motor Corporation has entered into a joint venture with GM for auto production in California. Domestic content legislation would jeopardize these investments and act as a disincentive to future investments. There are already serious inflexibilities and big risks inherent in the establishment by foreign automakers of manufacturing plants in the U.S. If all the constraints of domestic content were laid on top of these, the problems of keeping such plants economically viable would be prohibitive. Decisions to establish production facilities in the U.S. must be based on sound economic rationale. Domestic content will reverse this trend toward U.S. investment, not accelerate it.

Mr. Chairman, this legislation was conceived in the depths of a serious recession in the domestic auto industry, with enormous pressures to do "something"—anything—to stimulate recovery. Today, we see the U.S. auto industry healthier than ever. We see tens of thousands of autoworkers back at work in a vigorous, if somewhat less labor-intensive, domestic industry.

And in the interim, we have seen something else. We have seen, from the unfortunate experience of the Voluntary Restraint Agreement, that the American consumer pays the price when competition is artificially restricted.

On the opening day of this Committee's hearings, Senator Danforth said, "There is no free lunch in world trade." We agree, and this legislation is a perfect example of that principle. It would ask the dockworker in Portland, the import car salesman in Missouri, the farmer in Nebraska, the machinist at Boeing in Seattle, and American consumers from Maine to California to sacrifice their pocketbooks—and in many cases their jobs—to give protection to an industry whose products are in strong demand and whose profits have broken all previous records.

Mr. Chairman, we do not believe that is a fair bargain—for the import auto industry that is making a significant and growing contribution to American society, for an American economy increasingly dependent upon expanding world trade, and for American consumers who deserve the benefits of vigorous competition.

Thank you.

TABLE I.—*Price increases resulting from the enactment of domestic content legislation*

| | *Percent* |
|---|---|
| Imported subcompact | 43 |
| Domestic subcompact | 25 |
| Imported compact | 17 |
| Domestic compact | 21 |
| Midsize | 13 |
| Fullsize | 7 |
| Imported luxury | 17 |
| Domestic luxury | 7 |
| Light truck | 25 |

Note.—These percentages reflect cumulative price increases which would take effect 6 years after the bill was enacted.

Source: Wharton Econometric Forecasting Associates.

TABLE II.—PRICE INCREASES IN SELECTED DOMESTIC MODELS BETWEEN 1981 AND 1984

| | Up (percent) | From | To |
|---|---|---|---|
| Chevrolet Chevette 4-door | 7 | $5,173 | $5,508 |
| Ford Mustang 2-door | 14 | 6,230 | [1] 7,089 |
| Plymouth Reliant 4-door | 16 | 5,980 | 6,941 |
| Chevrolet Caprice 4-door | 21 | 7,731 | 9,388 |
| Oldsmobile 88 4-door | 30 | 7,751 | 10,040 |
| Chevrolet Camaro Berlinetta | 42 | 7,668 | [2] 10,885 |

[1] Includes product content improvements.
[2] Includes full-model change at 1982.5.

Note.—Based upon manufacturer's suggested retail price.

Source: TMS/USA.

TABLE III.—EMPLOYMENT EFFECTS OF DOMESTIC CONTENT

| | Gain in auto industry | Loss in nonauto sectors | Net effect |
|---|---|---|---|
| Congressional Budget Office | +38,000 | −104,000 | −66,000 |
| Department of Commerce | +30,000 | −155,500 | −125,500 |
| Wharton Econometric Forecasting Associates | +58,000 | −423,000 | −365,000 |

Source: Temple, Barker and Sloane.

The CHAIRMAN. Thank you very much. Mr. Elliott.

## STATEMENT OF TOM ELLIOTT, VICE PRESIDENT, AMERICAN HONDA MOTOR CO., GARDENA, CA

Mr. ELLIOTT. Thank you, Senator. My name is Tom Elliott. I am vice president of automobile operations for American Honda Motor Co. We appreciate the opportunity to present Honda's views on S. 707, and I would like to summarize our written statement and perhaps present the views of both not only an importer, but a manufacturer of automobiles in the United States.

It should come as no surprise that we oppose S. 707. American Honda is a U.S. corporation with headquarters in Gardena, CA, and this year American Honda celebrates its 25th anniversary of successful operations in the United States. Currently more than 4,500 people are employed in Honda's U.S. activities, with about 100 located right here in our Portland zone office.

Honda's philosophy is that products should be produced within its major markets, thereby providing economic benefits to the host country. Following this philosophy, Honda currently manufactures products in 30 countries outside of Japan.

Honda began investing in U.S. production facilities in 1978 and soon this investment will reach $600 million. This includes five separate plants to produce motorcycles, automobiles, automotive parts, motorcycle engines and power equipment. This year we will produce 130,000 automobiles in the United States. Honda has already announced its plan to expand the capacity of its U.S. plant to 300,000 vehicles per year or double its present capacity.

Despite Honda's substantial investment in the U.S. market, we would be unable to comply with the local content requirements of S. 707. Even with the level of U.S. production of 300,000 vehicles, which is equal to 75 percent of our last year's sales, we would not be in compliance with the domestic content ratio specified in this bill. We believe that this demonstrates the content requirements in S. 707 are completely unrealistic.

We believe local content is wrong. It will not encourage Honda to invest in the United States. We are already here, investing here and providing jobs to thousands of Americans. S. 707 will not act as a stimulant to Honda. It will, instead, act as a barrier to the continued growth of Honda's U.S. operations.

Thank you.

[The statement follows:]

### STATEMENT OF TOM ELLIOTT, VICE PRESIDENT OF AUTOMOBILE OPERATIONS, AMERICAN HONDA MOTOR CO., INC.

Thank you, Mr. Chairman. I am Tom Elliott, Vice President of Automobile Operations for American Honda Motor Co., Inc. I appreciate the opportunity to present Honda's views on S. 707, Fair Practices in Automotive Products Act. It should come as no surprise that we oppose this bill.

American Honda is a U.S. corporation chartered in California with headquarters in Gardena, California. This year, American Honda celebrates 25 years of successful operation in the United States. We are pleased that Honda has been able to evolve from an importer and distributor of motorcycles to an importer, distributor and U.S. manufacturer of motorcycles, automobiles, and power equipment. Currently, more than 4,500 people are employed in Honda's U.S. activities.

This evolution, from an importer to a U.S. manufacturer, took place not out of a fear of U.S. trade restrictions, but rather because of a long-standing corporate policy. Honda's philosophy is that products should be produced within its major markets, thereby providing economic benefits to the host country. Following this philosophy, Honda currently manufactures products in 30 countries outside of Japan.

Honda began investing in U.S. production facilities in 1978 and soon this investment will reach $600 million. This includes five separate plants to produce motorcycles, automobiles, automotive parts, motorcycle engines, and power equipment. These investments are financed by American Honda from the profits it earns in the United States. Thus, Honda is reinvesting in and supporting one of its major markets.

Construction of the Ohio motorcycle plant began in 1978. Production followed in 1979. This year the plant is building about 70,000 large displacement motorcycles and employs 550 workers. Honda first considered building an American automobile plant in 1974, and an option for the land was taken in 1977. In January 1980, following the satisfactory operation of the U.S. motorcycle factory, Honda announced its plan to build a U.S. automobile plant adjacent to the motorcycle plant.

The Ohio auto plant began producing 4-door Accords in November 1982, marking the first U.S. production of automobiles by a Japanese manufacturer. In January of this year we added the Accord 3-door hatchback to our production. This year we will produce 130,000 units. Honda has gradually increased production consistent with maintaining the high quality of our products. I am pleased to report that we reached the plant's capacity production level of 150,000 cars per year (2 shifts; 600 cars per day) this month. Currently, the automobile plant employs 1,800 workers.

Honda has already announced its plan to expand the capacity of the U.S. plant to 300,000 vehicles per year, or double its present capacity. A 700,000 square foot plant expansion will permit the installation of a second line—for our Civic line of vehicles. Civic production is expected to begin in early 1986 with capacity production achieved in 1988.

The Honda automobiles built at the U.S. plant have been well-received by consumers, confirming that the quality level of our U.S. cars equals that of our imported product. Our U.S. factory is a full manufacturing operation, not just an assembly plant. In addition to final assembly, our plant stamps metal parts such as fenders, doors, hoods, trunks and fuel tanks. We also use plastic injection molding machines for parts such as grills, instrument panels, and bumpers.

At the curent time our local content is about 50%. Domestically-sourced components and materials include tires, batteries, lights, seats, wheels, steel, paint, and plastic resins. In total, Honda obtains automobile components from over 40 American suppliers, including Inland Steel, Borg-Warner, PPG, DuPont, Goodyear, and Delco-Remy. Parts and materials suppliers are determined by their ability to meet Honda specifications of high quality at a competitive price. This is essential to the successful manufacture of Honda automobiles in the U.S.

Despite Honda's substantial investments in the U.S. market, we would be unable to comply with the local content requirements of S. 707. Even with a level of U.S. production of 300,000 vehicles, which is equal to three-quarters of Honda's total U.S. sales in 1983, we would not be in compliance with the domestic content ratios specified in this bill. We submit that this demonstrates the content requirements in S. 707 are completely unrealistic.

Honda uses the profits from its U.S. sales of all models, both import and domestic, to pay for its investment in its existing and planned U.S. plants as well as to consider future U.S. investments. The consequences of S. 707 are inconsistent with U.S. efforts to encourage investment by foreign automobile manufacturers. It imposes an additional burden on foreign manufacturers who have built, or are building, production facilities in the U.S.

However, even if Honda could meet the bill's requirements, we would still strongly oppose it for a variety of reasons. This bill limits our flexibility to combine the highest quality components from diverse sources to produce Honda automobiles most efficiently.

This bill poses several other problems for Honda. The leadtime necessary to comply with the local content requirements is not adequately taken into account. Honda is making an effort to increase its sourcing of U.S. components, but matching specifications, quality, cost considerations, and delivery schedules with suppliers is a time-consuming process.

The local content requirements under S. 707 are based on projected sales which are to a large extent unpredictable. A manufacturer's prescribed content level for a given year is not known until the end of that model year. Then it is too late to change the local content of those vehicles. Thus, even a manufacturer who has made a good faith effort to comply can still be penalized substantially due to rapid shifts in consumer demand.

In April 1981, Japan established a voluntary restraint (VRA) on exports of automobiles to the United States. It was set at a level of 1.68 million units for 2 years, with a third year to be negotiated depending on the status of the U.S. auto market and the health of the U.S. automakers. On April 1, 1984, the Japanese government began a fourth year of the voluntary restraint at a slightly higher level of 1.85 million.

During the period of protection by the VRA, the domestic auto manufacturers have improved their competitiveness. In 1983 they earned over $6 billion in profits. For 1984, analysts are projecting profits as high as $10 billion. Whether the VRA had a positive impact on the domestic automakers is debatable, but surely no one can dispute that it has caused consumers to spend more money on every car purchased, both import and domestic. Despite its consequences, the intent of the VRA was to offer temporary protection to the U.S. auto industry during the period of adjustment. In contrast, local content requirements threaten to erect a permanent barrier to competition in the U.S. auto market.

The U.S. economy, the domestic automakers, and the U.S. auto market are now very strong. If enacted, this legislation would have a damaging impact on the U.S. economy. It would further increase prices of automobiles, reduce model availability, and trigger retaliation in the form of higher barriers to U.S. exports.

We believe local content is wrong. It will not encourage Honda to invest in the United States. We are already investing here and providing jobs to thousands of Americans. S. 707 will not act as a stimulant to Honda but will instead act as a barrier to the continued growth of Honda's U.S. operations.

The CHAIRMAN. Thank you.

And Henry Martin, my good friend from Grants Pass.

## STATEMENT OF HENRY C. MARTIN, PRESIDENT, AUTO MARTIN, LTD., GRANTS PASS, OR

Mr. MARTIN. Mr. Chairman, I appreciate the opportunity to present my views on S. 707.

My name is Henry Martin, and I own and operate Auto Martin, Limited, a 51-year-old automobile dealership that was started by my father, before I was born, on Sixth Street in Grants Pass.

We are franchised to sell Mercedes-Benz, Nissan, and Volvo, and we have 32 faithful employees whose families depend on us for their livelihood. Our annual payroll is $576,000.

I started as an apprentice in my dad's Studebaker agency in 1950 as a helper in the parts department. Later, I was in full charge of the wash rack and then an apprentice mechanic.

When I returned from Korea and 3½ years in the Army, I entered the sales department and have been operating the dealership since 1965.

My business, Mr. Chairman, is representative of 7,000 American businessmen and their 165,000 employees who are engaged in the sale and service of imported automobiles throughout the United States. This legislation will result in the direct loss of thousands of jobs in the imported auto industry in America. The respected Boston research firm, Harbridge House, has estimated the local content bill would reduce employment in our industry by as much as 40 percent. We can ill afford the massive loss of jobs because of a greedy attempt by organized labor to protect and increase the already high wages paid in the industry at the expense of output, consumers, exports and other jobs elsewhere in the economy.

The U.S. economic interest would suffer and even though there has been a significant shelter for the U.S. industry by their recent so-called voluntary export restraint, organized labor still hasn't been satisfied and would like to create an uncompetitive domestic industry behind a protectionist shield.

We are proud of the quality of products we represent in our small business. We are diligent workmen who need not be ashamed, as Paul said in his second letter to Timothy. Instead of letting free enterprise reward faithful craftsmen with success, this bill would propose to artificially coddle their interests. The press is full of reports of a substantial boom being enjoyed by the manufacturers in Detroit and it is obvious that no protection is needed. Huge profits are already being made through moderate volume and a high-price strategy. The healthy recovery and restructuring of the auto industry removes the last shred of justification for new protections.

Eighteen billion dollars of additional cost to the U. S. consumers will be the result of domestic content legislation. It could trigger a new round of trade wars and it certainly damages the prospect for a viable, competitive industry by blocking new sourcing strategies and increasing labor costs. There is no justifiable reason for our country to violate its international obligations under GATT, and that is exactly what would happen if this domestic content legislation were enacted.

Quite frankly, my employees and their families would suffer, the consumers in our Rogue River Valley would suffer and our family business would be hard hit if this ill-advised legislation were to ever see the light of day. Even during the past 4 years of economic downturn, our trusting employees were able to keep their jobs. God blessed us with steady business and faithful customers, and our consumers deserve our best efforts to stop any action that will cost them more in the long run.

Solomon, the wisest man who ever lived, said that whatever our hands find to do, we should do it with all of our might. Hard work, good value, free enterprise need to be encouraged, not stymied, as this bill would propose. I pray that you will effectively block this ill-advised legislation and encourage your colleagues to direct their efforts into positive areas instead.

The CHAIRMAN. Thank you.

Mr. Elliott, let me ask you about your manufacturing experience at the Honda plants, both the motorcycle and the auto. Can you compare your productivity with the Japanese plants?

Mr. ELLIOTT. I cannot compare it directly. We are producing currently about one car every minute at our Ohio plant, and that compares, I think, fairly favorably with our plants in Japan.

The main difference is in Japan, also, they are running two shifts and sometimes maybe two and a half shifts.

The CHAIRMAN. So, if you can run that many shifts, you can get a slightly increased productivity?

Mr. ELLIOTT. Yes.

The CHAIRMAN. Are you organized by the UAW here?

Mr. ELLIOTT. No. We have three boilermakers in Marysville who are UAW members.

The CHAIRMAN. You mean three people?

Mr. ELLIOTT. Three people.

The CHAIRMAN. Who are UAW members, but the rest of your plants are nonunion?

Mr. ELLIOTT. That is correct.

The CHAIRMAN. Has there been any effort to attempt to organize them?

Mr. ELLIOTT. Yes, there has been attempts to organize our people.

The CHAIRMAN. Has it gone as far as a vote?

Mr. ELLIOTT. Not at the current time; no, sir.

The CHAIRMAN. OK. I think I have no more questions. Gentlemen, thank you very much.

We will conclude with the panel of Bill Swindells, Willamette Industries; Gary Conkling representing Tekronix; Dean Thornton from the Boeing Co.; John Sprouse and Earl Pryor from the Wheat Growers.

I will place into the record a statement from Automotive Services, Inc., of Vancouver, WA, in opposition to the bill.

Bill, do you want to start?

## STATEMENT OF WILLIAM SWINDELLS, JR., ON BEHALF OF THE AMERICAN PAPER INSTITUTE AND THE NATIONAL FOREST PRODUCTS ASSOCIATION

Mr. SWINDELLS. Yes.

Thank you for inviting me to testify here. My name is William Swindells and I am president and chief executive officer of Willamette Industries, Inc., whose headquarters are here in Portland. I am appearing on behalf of the American Paper Institute, which represents over 165 companies which produce over 90 percent of the pulp and paper manufactured in the United States, and on behalf of the National Forest Products Association, which represents 33 regional, product, and species associations comprising 2,500 different wood products companies.

The paper industry employs about 660,000 people and operates in every State in the country. In 1983 its total shipments amounted to $85.7 billion. Our direct exports exceeded $4.2 billion. But, in addition to that, more than $10 billion of our domestic sales depend on the exports of other industries who use our paper for packaging and other uses related to exports. The more than $14 billion attributable to these exports are a significant component of the paper industry's sales and employment.

The solid wood products industry employs nearly 650,000 people and its annual shipments total approximately $50 billion. In 1983 export shipments were more than $2.8 billion and provided directly or indirectly jobs for over 65,000 workers. A large number of those people are located here in the Northwest. The forest products industry is critically dependent on exports of their products. This is particularly true in the Northwest where we have long freight hauls to our eastern markets and we look to exports for a major part of our business now and in the future.

Because of this dependence on exports, the forest products industry is a supporter of an open trade policy. We are strongly opposed to the domestic content legislation embodied in Senate bill 707. We feel that this legislation is dangerously protectionist, would provoke retaliation against U.S. exports and would undermine our treaty obligations under the General Agreement on Tariffs and Trades, known as GATT.

If domestic content legislation is enacted, retaliation against U.S. exports by our trading partners is a certainty. We cannot expect other countries to purchase our products if we restrict their right to sell in our markets. Moreover, under the GATT rules, our trading partners would have legitimate grounds to engage in retaliatory actions against our exports. In effect, domestic content requirements are import quotas and, as such, are expressly forbidden under the GATT rules. The United States can and should expect that any retaliation will be directed at our most active export sectors. This clearly would include forest products.

Last year the forest products industry exported nearly 1.7 billion dollars' worth of products to Japan, and we are keenly interested in expanding those exports. Currently the forest products industry is engaged in negotiations with the Japanese to gain greater access to their markets. Some progress has been made, but much remains to be done and, in this regard, I am talking about manufactured products from our paper mills and sawmills.

Although S. 707 would affect imported automobiles from any country, Japan is its primary target. If domestic content legislation is enacted, any incentive the Japanese have for opening their market further to exports of the forest products industry and other U.S. industries would be removed and our efforts would be placed in jeopardy. The timing of this legislation could hardly be worse from our point of view.

We think that restriction of competition from imports in the automobile industry would inevitably lead to higher prices for automobiles in this country. This will be, in effect, a hidden tax on the automobile buyer. Employees in our industry would be faced with the irony of having their jobs threatened by limited export markets for the products they produce while being forced to pay higher prices for the automobiles that they drive.

S. 707 is also poorly timed, from a broader standpoint. The retaliation that this legislation would provoke could be widespread. The end result would be a contraction in world trade at the very time when the world economic recovery is gaining momentum. It would certainly be counterproductive if an ill-conceived attempt to protect one domestic industry led to a trade war which would threaten the global recovery now underway.

Mr. Chairman, as an Oregonian, I appreciate your efforts in opposition to this bill, and on behalf of the American Paper Institute and the National Forest Products Association, I urge your rejection of S. 707.

Thank you.

The **Chairman**. Bill, let me ask you a question before I go on with Gary Conkling. If you had unlimited access to the Japanese market, could you manufacture in the United States and sell in that market competitively?

Mr. **Swindells**. We think we can. We are doing so now.

The **Chairman**. By "competitively," I mean competing with the existing Japanese sawmills, and there are a fair number of small, almost what we would regard as family-type sawmills.

But, you could make the product here, as Mr. Herteck is, whom I talked about earlier, and sell it in Japan competitively?

Mr. SWINDELLS. We think we can. Also, we are under the impression that those small, family owned sawmills in Japan are being phased out because they are becoming less efficient over time, where ours are up to date.

The CHAIRMAN. I saw some of them when I was over there and they really did remind me of some of the mills you would have seen in this country 30 years ago that were run by 10, 12 people. They are very, very small operations.

All of us understand domestic political pressures. By and large, in Japan the ruling party has a strong agricultural, fishing, timbering base, as most conservative parties do in most of the world; and Japan, of course, has never had reapportionment based upon one person/one vote, so that the rural and the fishing and the smaller geographic—smaller populated areas are disproportionately represented in the diet. Everytime you are going to put somebody out of business, it causes your political party great problems.

But I, for the life of me, do not see how those Japanese sawmills—I don't care what kind of support or protection they would have—could compete with us if we had access to them.

Mr. SWINDELLS. We think that is right.

The CHAIRMAN. Gary.

## STATEMENT OF GARY CONKLING, ON BEHALF OF THE AMERICAN ELECTRONICS ASSOCIATION

Mr. CONKLING. Thank you very much, Mr. Chairman, for the opportunity to appear today. My name is Gary Conkling and I am the manager of government relations for Tektronix, which is headquartered in Beaverton. Tektronix is Oregon's largest private employer with 15,000 employees in Oregon and another 2,000 employees in Clark County, WA. We have annual sales this year of $1.3 billion, of which almost 40 percent are international sales. We have in excess of $100 million of sales in Japan; 65 percent of the instruments that we sell in Japan are manufactured and assembled in Oregon or Washington. The other 35 percent are assembled in Japan, but largely consist of American-made parts.

I am here today, also, on behalf of the American Electronics Association, which represents some 2,500 electronics companies, ranging from IBM down to very, very small companies.

I will just summarize our statement today in the interest of time. The electronics industry, like many other industries, is under siege by foreign competition. Our net export surplus has been sharply reduced. We are almost at a push now in what we are exporting versus what we are importing in terms of electronics equipment. We, could be a candidate to support some kind of domestic content for our own products; however, we have not done that. We support a free trade position, and we are in opposition to S. 707.

Our reasons, if I can just tick them off quickly, are that we regard domestic content, at its roots, as a form of a national industry policy that attempts to pick an industrial winner at the potential expense of others who could become industrial losers. We believe that measures which restrict market access or grant market monopolies will cost the consumers money. We have already heard testimony this morning about the impact on the price of cars that consumers must pay.

We believe that domestic content inescapably will lead to retaliation. We believe that that retaliation will not just be in the automobile sector, but will be in other sectors that are successful exporters, including our own, as well as aerospace, agriculture and forest products. We believe that domestic content will lead inevitably to performance requirements by other countries where we would be required to sell in those countries only products that consist of largely parts that are sourced in those countries. We think that our industry in particular is one of those industries highly susceptible to that kind of treatment.

Finally, we believe that the Pacific Northwest, which relies more heavily than most regions in the country on international trade, will be hurt more severely than many others by either retaliatory measures or foreign performance requirements.

Now, oftentimes we talk in the abstract. I thought today it might be helpful to look at one single device that is made here, so I brought along a portable oscilloscope which is made in Vancouver, WA. It is the 2337, if you are interested in model numbers. It consists of 2,370 separate parts, 1,881 of are electrical components. Almost all of these electrical components are purchased by us, but purchased from U.S. sources, so they are manufactured in the United States. The other 489 parts, which really represent the high value components such as the cathode ray tube, are products that are made by ourselves in our operations in Oregon and Washington.

We employ an assembly force of just 40 people to make this particular family of oscilloscopes. Those people are backed up by tool and die makers, tool engineers, manufacturing process engineers, machine operators, draftsmen and many other people who really constitute the 17,000 people that we have in Oregon and Washington.

The point of all this is that we don't just assemble something here. We manufacture our products from scratch. One reason why it is very difficult to avoid bumping into someone who either works for Tektronix or provides a product it sells to Tektronix is because we are a basic manufacturer.

In a very real sense, 40 percent of that work force, or almost 7,000 people, are at risk if we were to face either foreign retaliation or foreign performance requirements that would require us to manufacture less of our product in either Oregon or Washington.

For those reasons, we believe that domestic content is a bad bargain and bad business for our region.

Thank you.

[The statement follows:]

## STATEMENT OF GARY L. CONKLING, ON BEHALF OF TEKTRONIX, INC., AND THE AMERICAN ELECTRONICS ASSOCIATION

Mr. Chairman, my name is Gary L. Conkling and I am manager of government relations for Tektronix, Inc., headquartered in Beaverton, Oregon. Tektronix is Oregon's largest private employer with more than 15,000 employees. We also employ 2,000 people at our Clark County facility near Vancouver, Washington.

Tektronix is an electronics company that manufactures sophisticated test and measurement equipment, television products, computer graphics terminals and peripherals, and computer-aided design equipment. Our total sales this fiscal year are expected to reach $1.3 billion. Close to 40 per cent of our sales are in international markets, mostly resulting from exports from our Oregon and Washington operations.

Our international sales are important to Tektronix since we reinvest 10 per cent of our sales revenues in research and development. Our current R&D budget is $133 million. If you subtracted the contribution to our R&D budget made by our international sales, that budget would be only about $80 million. Those investments in R&D are our lifeblood to remain competitive, both here and abroad. Therefore, in a very real sense our foreign customers are paying a significant amount of the price it takes to retain our world technological leadership. For us, that is good business and a bargain to boot.

I also am appearing here today on behalf of the American Electronics Association which is a national trade association representing 2,451 companies that account for 63 per cent of the worldwide sales of U.S. electronics companies. While AEA represents electronics industry giants such as IBM, Intel and Hewlett-Packard, 72 per cent of AEA's members are small, rapidly growing companies with fewer than 250 employees.

AEA members produce aerospace equipment, computers and peripherals, software, telecommunications equipment, military equipment and semiconductors. Most of these companies operate in markets that are global in nature, with up to 50 per cent of their business coming from non-U.S. sources.

International commerce, therefore, is important to Tektronix and to the entire electronics industry. That is why Tektronix is active in pro-trade organizations such as the Pacific Northwest International Trade Association, of which I am president, and the Emergency Committee on American Trade, to name just two.

## INTERNATIONAL TRADE PHILOSOPHY

My company and my industry subscribe to a free trade philosophy. We believe our energies should be devoted to opening up markets, not closing them.

There is ample evidence in history that closed national markets stunt global economic growth and that open national markets promote golobal economic growth. The trend toward a more open international marketplace since World War II has ushered in a era of unparalleled economic prosperity, in the established industrialized nations and in newly developing nations alike. The pre-war system of extensive trade barriers thwarted growth and created frictions. Many historians believe the trade war helped propel the real war.

We consistently have supported U.S. leadership in seeking reductions in tariffs and non-tariff barriers in world markets. We think that leadership is needed now more than ever as pressures grow to yield to the siren song of protectionism.

Thus, because of our trade philosophy, the evidence supporting that philosophy and our support of U.S. free trade leadership, I appear today in opposition to S. 707, the "Fair Practices in Automotive Products Act."

## PERSPECTIVE ON THE ELECTRONICS INDUSTRY

The United States, with its world technological leadership, has enjoyed a significant net export surplus in electronics equipment. But that export surplus is quickly eroding. As recently as 1980, U.S. electronics exports exceeded imports by $6.3 billion. Last year, that net surplus dwindled to just $100 million even though U.S. exports had grown 25 per cent to almost $27 billion.

This is a situation that could lead our industry to conclude that we need protection against foreign competitors. But that isn't the conclusion we've reached. We are successful in world markets—when we are allowed to penetrate them. We support moves to tear down foreign trade barriers that limit our access, just as we support streamlining the administration of U.S. export controls which unduly impede our ability to be reliable suppliers of commercial products to worldwide customers.

Our view is that competition is helpful, not harmful. In the long run, we'll be better for the competition. Throughout, the consumer—whether it is an individual or another corporation—will be better off because there will be more choice and cheaper prices.

Neither our profits nor our jobs will be secure in the face of this competition. But it is deceptive to believe security results from market protection. By facing our competitive head-on, we know what we have to do to survive. By hiding from our competition, we lull ourselves into deeper trouble.

## OUR OBJECTIONS TO S. 707

Our specific reasons for opposing so-called domestic content legislation are reasons you have heard many times:

Domestic content, at its roots, is a form of national industrial policy that politically anoints an industrial winner at the potential expense of other industries who could become industrial losers if other nations choose to retaliate against U.S. products or to follow our example with protectionist measures of their own. We think America's successful electronics industry is a prime target to become one of these losers.

Measures which restrict market access or grant market monopolies cost consumers money. One estimate places the cost of S. 707 to U.S. consumers at $18 billion annually. S 707 also would distort the economy, including disrupting natural capital flows. This will be most harmful for those businesses that already encounter difficulties in attracting capital. Most of those vulnerable businesses are small businesses. Again, the electronics industry, with many startup companies thirsting for capital, would be among the vulnerable.

Domestic content inescapably will lead to retaliation. That retaliation will not necessarily be limited to the automobile industry. In fact, in all likelihood it will be focused on the most successful U.S. exports, which include electronics, aerospace, agricultural and forest products. The loss of these exports will aggravate our already troubling national trade deficit.

Domestic content also will lead inevitably to performance requirements imposed by countries where we now successfully are selling U.S.-made products with many U.S.-made components. If we are forced to source components overseas as a requirement to sell overseas, it will eliminate jobs here. The Congressional Budget Office estimates that the cost of preserving 38,000 auto jobs by 1990 will be the loss of 104,000 jobs in other industrial sectors. A study by Wharton Econometric Forecasting Associates make en even more dire prediction, concluding that for 58,000 autoworker jobs saved, 423,000 other jobs would be lost to the rest of the economy. The highly competitive and highly desired electronics industry would be a sure bet for foreign performance requirements.

Many of those lost jobs would be in the Pacific Northwest, which among all regions in the nation relies most heavily on international trade. In addition to the jobs lost on the dock because of curtailed auto imports, our region's exporters would be heavily and disproportionately punished by foreign retaliatory or mirror performance requirement measures. The greatest hope for our region's economic resurrection will have been destroyed.

## AN EXAMPLE OF HOW DOMESTIC CONTENT COULD IMPACT ONE COMPANY

We too often discuss domestic content legislation in the abstract, so I would like to take this opportunity to put our concerns into concrete example.

I have brought with me today a portable oscilloscope manufactured by Tektronix. An oscilloscope is to an electrical engineer what a stethoscope is to a medical doctor. It's hard to know what's going on inside an electronic device without one.

This particular oscilloscope contains 1,881 electrical components, including transistors, resistors, capacitors and diodes. It also contains 8 Tektronix-made integrated circuits and 11 Tektronix-made hybrids and thick films. In additiona, there are 344 metal parts, 88 plastic parts, 12 circuit boards, 27 cable and wire assemblies, 1 cathode ray tube and 17 miscellaneous parts such as transformers, probes and a fan.

All that totals, 2,370 separate parts. We purchase 99 per cent of the 1,881 electrical components, almost totally from U.S. sources. The other 489 parts, which happen to be the highest value components, are made inside Tektronix.

We employ an assembly force of just 40 people in Vancouver to produce this family of oscilloscopes. But we also employ tool and die makers, tool engineers, manufacturing process engineers, machine operators, mechanical engineers, draftsmen, milling machine operators, punch press operators, welders, photographers, chemists, computer programmers, high-technology chip equipment workers, buyers, schedulers, material planners, material handlers, printers and transportation people.

My point is that it is hard in our community to avoid bumping into someone who works for Tektronix. It's even tougher when you add the people who make something that Tektronix buys to make its products. The reason is because we don't just assemble a final product. We manufacture it from scratch. That's where the jobs come from.

We support our large work force by selling approximately 60 per cent of our products in the United States and 40 per cent abroad. If we had to buy foreign components or transfer manufacturing operations overseas to qualify for that 40 per cent of our sales, it would means less manufacturing—and fewer manufacturing jobs—here.

In a very real sense, as much as 40 per cent of our Oregon and Washington work force—or 6,800 people—are at risk if we face domestic content abroad.

Given this perspective of the impact on a single company, it is very hard to see how our region would gain by passage of S 707. It is also very hard to understand how Detroit and U.S. autoworkers would gain very much over the long haul because this kind of widespread unemployment isn't conducive to purchasing cars, regardless what they cost or where they are from.

## OVERSEAS MANUFACTURING

In anticipation of questions about the extent of overseas manufacturing in our industry, let me provide you with answers relating to my company.

Tektronix operates facilities in the United Kingdom, the Channel Islands, Holland and Japan. In all cases, thess facilities assemble Tektronix instruments, using components largely provided by our operations in Oregon and Washington.

We set up all of these facilities to gain greater penetration into foreign markets, not because we were required to, but because it made good business sense and increased profits to Tektronix and job opportunities for Tektronix employees in the United States.

Our facilities in Japan are the most relevant to this discussion. We operate a joint venture in Japan in a 50-50 partnership with Sony. Our joint venture stretches back to 1965 and it has been extremely successful.

SonyTek's annual revenues exceed $100 million annually. More important, SonyTek is a leader in Japan in test and measurement equipment. That strong position serves to discourage competitors from cropping up in Japan and, consequently, helps our competitive position in the United States and worldwide.

SonyTek is a fully integrated operation that designs, assembles, sells and services products.

Of the products sold by SonyTek in the Japanese market, 36 per cent were assembled in Japan and 64 per cent were manufactured *and* assembled in Oregon and Washington.

Of the Japanese-assembled products of SonyTek, some 80 per cent of the components were manufactured in the United States. That includes components for the products designed by SonyTek.

SonyTek assembles discrete lines of products which are sold in the United States and worldwide. Again, some 80 per cent of the components are from the United States and some of the instruments are reshipped to the United States for insertion of a U.S.-origin cathode ray tube.

Incidentally, those steps occur at our Portland facility located at 5333 NE Union. It is a facility that exists because of our successes in Japan.

## CONCLUSION

A good many Members of Congress who supported domestic content legislation in the House of Representatives did so even though they realized we risked retaliation and countermeasures because they said they wanted to send the Japanese a message.

We agree that S. 707 would send a message. It is a message that is blatantly anti-Japanese. And, it is a message that will boomerang.

The United States is a rich nation, blessed with vast natural resources, great wealth and a splendid work force. If we succumb to protectionism in the face of admittedly stiff and at times unfair competition, what's to stop other lesser nations from following the same course?

Our stridency toward the Japanese will only come at a price. Japan represents America's second largest foreign customer, trailing only Canada. Last year, we sold $21 billion worth of goods and services to the Japanese. Japan is our largest customer for U.S. agricultural products, buying last year $6.6 billion worth of our commodities. For example, we supply 85 per cent of Japan's wheat, corn, sorghum and soybeans. Frankly, we have more to lose.

Without question, we have legitimate grievances on trade matters with the Japanese. We should not shrink from pressing for relief. But the redress we seek should be toward opening up world markets to competitive, fair trade, not toward sealing them off.

The electronics industry is sympathetic to the U.S. auto industry. After all, they are our customers. We want automobiles to be built in America, and we believe they can be built here with world-class quality and at affordable prices. Americans are good consumers and will buy American cars when the value is in the product. They won't buy American cars just because they are made in America or because they have mostly American parts.

Officials in Brazil discovered this painful lesson when a few years ago they halted the sale of foreign general aircraft in their country and deeded the market to a single domestic manufacturer. Up until then, the total market in Brazil for general aircraft was 400 planes a year. The domestic manufacturer made 6 of the 400 planes sold. After the Brazilian government closed its general aviation market to foreign manufacturers, the demand for airplanes plummeted to just 4 per year—less than the domestic manufacturer was producing before the government's action.

This is the ultimate boomerang message served up by domestic content legislation. It simply won't work as it is intended.

Car prices will go up. Car purchases will go down. Exports in other U.S. industrial sectors will be penalized. Jobs will be lost. Trading relations with the Japanese will be soured. Key markets, especially for agricultural goods, will be forfeited.

For a time, Detroit and its autoworkers may benefit. But the benefit will be short-lived. The real victors will be inflation and unemployment.

Our loss will not only be counted in jobs eliminated today because of blunted U.S. exports; but also in jobs that never will be tomorrow because of the long-term growth we sacrificed by a short-term action.

We thank you for this opportunity to testify on S. 707, as well as for your leadership in focusing public attention to this legislation. We believe the facts ring clear that this is bad legislation for the working men and women of America, and certainly for the working men and women of the Pacific Northwest. We urge your strong opposition.

The CHAIRMAN. Thank you.

Mr. Thornton.

## STATEMENT OF DEAN D. THORNTON, SENIOR VICE PRESIDENT, THE BOEING CO., SEATTLE, WA

Mr. THORNTON. Thank you, Senator Packwood, for giving me the opportunity to express the Boeing position on S. 707.

I am Dean Thornton, senior vice president of the Boeing Co. in Seattle. Boeing is among the 100 organizations and companies that signed a letter to you dated April 9 of this year urging you and your colleagues to vote against this bill. We believe S. 707 will raise automobile prices and lose potentially more than 2½ times as many export jobs as it might save in the automobile industry by triggering foreign retaliation against leading U.S. export items.

Boeing is vitally dependent on foreign sales. Our latest forecast pretty much tracks our history, and for large civil aircraft anticipates foreign carriers will account for about 60 percent of the total world market in the 1984–95 timeframe. This total market aggregates $172 billion.

The link between our concern about S. 707 and the large overseas market for commercial airplanes is the danger that this bill could trigger a downward spiral of trade restrictions among many countries of the world in a way that would be difficult to control. We agree with those observers who believe Japan would have to retaliate against United States exports if S. 707 were enacted. Autos are simply too large a factor in Japan's exports for them to swallow it in silence. Commercial aircraft could get caught up in this process even if our product escaped being singled out as an early target.

We think S. 707 is bad trade policy. It is bad for U.S. consumers, it is bad for U.S. exporters and it is bad for Boeing. We hope the Senate will give it the resounding defeat it deserves.

Thank you.

[The statement follows:]

### STATEMENT OF THE BOEING CO.

The Boeing Company does not support S. 707, the proposed bill to establish domestic content requirements for motor vehicles sold or distributed in the United States.

Boeing believes this legislation, if enacted, would have serious adverse consequences.

First, automobile prices would rise sharply. The best estimate we are aware of is one by Wharton Econometric Forecasting Associates which concluded new car prices would go up 10 percent, costing American consumers $18 billion a year.

Second, we believe this legislation will lose more American jobs than it would save. We were impressed by the estimate by the Congressional Budget Office that by 1990, 104,000 jobs would be lost in the U.S. export sector while only 38,000 auto jobs would be gained.

Thirdly, we are concerned that because S. 707 clearly violates GATT rules, billions of dollars of American exports might be lost as a result of retaliation against United States exports. Commercial aircraft sales could be affected either directly or indirectly: directly if Japan decided to single out aircraft or indirectly if a downward spiral of major trade restrictions by many countries were triggered by United States enactment of S. 707. To illustrate the latter process, assume Western Europe further restricted Japanese auto exports after S. 707 became law because of fear that Japan would try to sell many more cars in Europe to help offset losses in the U.S. Japan would then be entitled to retaliate against European exports to Japan. Japan might very well target European wine and cheese. The U.S., fearing deflection of more European wine and cheese into the U.S., might well take steps to be sure this didn't happen. In response, Europe might intervene to persuade or instruct European airlines to cut back purchases of American-origin aircraft in favor of our foreign competitor, Airbus Industrie.

Boeing is vitally dependent on export markets for sales of commercial aircraft. We estimate an overseas market of about $100 billion for commercial aircraft between 1984 through 1995, about 58 percent of the world commercial market. Growing world markets and American exporters' access to the world market require a reasonably harmonious international trading regime. Unilateral trade-restricting actions by the United States in contravention of international agreements lead to disputes and recriminations that adversely affect U.S. exports.

Even in good times, United States exporters can ill afford the costs of actions and reactions of this kind. With United States trade deficits at unprecedented levels, the economy of the nation as a whole cannot afford the risks S. 707 poses.

The **CHAIRMAN**. Thank you. Mr. Sprouse.

## STATEMENT OF JOHN E. SPROUSE, JR., ON BEHALF OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

Mr. **SPROUSE**. Mr. Chairman, my name is John Sprouse, director and secretary of Sprouse-Reitz and chairman of the Portland chapter of the American Association of Exporters and Importers. I have a brief statement I wish to present to you to summarize the written testimony already submitted.

I would first like to comment on the effect S. 707, commonly known as domestic content, would have on Sprouse-Reitz and other retailers in this region. Sprouse-Reitz was founded by my grandfather 75 years ago. The company has been headquartered in Portland since 1920. Sprouse-Reitz has 320 stores operating in 12 Western States with $159 million in annual sales. We employ directly approximately 3,000 persons and support thousands of other jobs around the country through over 500 domestic suppliers.

My father started our direct import business in 1930 and I have been responsible for our imports during the past 15 years. The relatively open trade policies which have evolved since World War II have allowed us to provide our customers with unique and competitive merchandise. Our imported merchandise, which now represents over $16 million in retail sales, has enabled us to hold down inflation considerably during the high inflation years. The international competition has also kept our domestic suppliers on their toes to offer us the best prices, quality and choices of merchandise.

What effect would passage of S. 707 have on Sprouse-Reitz and other retailers? Such highly protectionist legislation, if passed, would open the door to similar legislation and other trade barriers against our imported products, creating higher prices, shortages and even complete nonavailability of merchandise our customers want.

Our company would lose sales and profits because most of our imported products cannot be replaced by similar items manufactured in this country. There simply are not companies making many of these products in the United States, but the real loser is the consumer.

Passage of S. 707 would especially affect the Northwest and Oregon in particular for two reasons. The elimination of imported automobiles would deal a crippling blow to a local economy that has not fully recovered from the recent recession. High tech exports, which Oregon relies so heavily on, would be one of the first targets for retaliation by Japan, and prospects for opening up our export lumber market would be hampered. I am told that Japan is our biggest customer for finished lumber.

This scenario would most certainly result in a regional recession which Sprouse-Reitz would feel directly in reduced retail sales and profits in our 68 stores in Oregon and Washington. Sprouse-Reitz strongly opposes S. 707.

As chairman of the Portland chapter of the American Association of Exporters and Importers, I have a few brief comments. The association represents 1,300 U.S. company members nationwide engaged in export, import and distribution of goods between the United States and countries throughout the world. The promotion of fair and open trade among nations has been the primary mission of AAEI for 63 years. On behalf of our members, our association wishes to call to your attention the great dangers to world trade expansion and to the economic growth and stability inherent in the domestic content automobile legislation.

The AAEI recognizes the problems faced by the U.S. auto industry, but believes any help offered must not abrogate the international agreement to which the United States is bound. GATT articles III and XI specifically prohibit domestic content legislation, and S. 707 does not meet the escape clause requirements of article XIX. Passage of S. 707 would signal our trading partners that the United States no longer feels bound by GATT rules, a system we have nurtured and supported for over 30 years. Even if S. 707 could be made GATT legal, our trading partners could invoke the retaliation and compensation clauses of GATT. We would be benefiting one special interest at the expense of the rest of the economy.

Japan, as the principal competition for our auto industry, is the unmistakable target of the proposed legislation. In addition to violating GATT, the bill also violates article 16 of our 1953 Treaty of Friendship, Commerce and Navigation with Japan. The United States can ill afford to be seen as a nation that picks and chooses which treaties and agreements it will enforce.

Besides violating international agreements, S. 707 would have a severe negative effect on the U.S. economy. Substantially similar legislation was attacked in the last 2 years by the Congressional Budget Office and the independent Wharton Associates as bringing No. 1, a net loss of U.S. jobs; No. 2 higher prices and less product for U.S. car buyers; No. 3, a reduction in foreign auto manufacturing and investment here; and No. 4, as well as a weakening of the growing competitive strength of the now highly profitable U.S. auto industry.

S. 707 is an ill-conceived and dangerous proposal which, if adopted, would lead the world down the protectionist path to world trade contraction. As the present recovery taking hold strengthens, our country must avoid shortsighted solutions. AAEI and Sprouse-Reitz strongly urge the Senate to defeat this ultimately harmful bill.

Thank you.

[The statement follows:]

## STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

The American Association of Exporters and Importers represents 1,300 U.S. company-members engaged in the export, import, and distribution of goods between the United States and countries throughout the world. The multitude of products sold by AAEI member companies cover a broad range from chemicals, machinery, electronics, footwear, food, textile and apparel to automobiles, wines and speciality items. In addition, many organizations serving the trade community—custom brokers, freight forwarders, banks, attorneys and insurance firms—are among the members of AAEI.

S. 707, the "Fair Practices in Automotive Products Act", is dangerous and misconceived legislation in that it attempts to relieve pressures on the automobile and automobile parts labor force, and on U.S. auto parts suppliers to the domestic industry, while wrongly assuming that this legislation will have no serious repercussions on other U.S. domestic and international interests.

The specific arguments against domestic content bills have been expressed in some detail in a number of studies by witnesses before the House Committees, and by witnesses before this Senate Committee. We need to restate them only briefly before concentrating on S. 707 in the light of our GATT responsibilities.

1. The implementation of domestic content requirements on imported automobile would reverse the international trade policies successfully adopted by the United States since World War II. A keystone of these policies has been reciprocal market access—an issue of concern to this Congress, the Administration, the trade community and to the nation at large. This nation has pressed for reciprocal treatment by urging other nations to reduce trade barriers and to open their markets. S. 707, however, would place this nation in the awkward position of having effectively closed a major market. While this regressive act might be removed at some future date, the damage done to our credibility as a nation committed to open world trade would take decades to repair. Enactment of such a drastic change in U.S. trade policy would clearly signal to our trading partners that the United States no longer considers itself bound by GATT rules.

2. The provisions of this bill clearly violate Articles III and XI of the General Agreement on Tariffs and Trade and other treaties which specifically prohibit domestic content requirements. (Nor does the Eckart amendment incorporated in H.R. 1234 solve this problem).

3. By violating the GATT the United States would subject itself to rataliation from affected trading partners.[1] Certainly, they will not seek compensation from in-

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[1] In its review of H.R. 1234, "Impact of Local Content Legislation on U.S. and World Economics", Wharton Econometric Forecasting Associates wrote on page 10:

"Local content legislation would result in a sharp drop of the sales of Japanese autos within the United States. As a result, the Japanese government would view this as a unilateral move by the U.S. government to improve the U.S. economy at Japanese expense. Since the Japanese economy is extremely dependent upon exports and is currently experiencing slow growth, the Japanese would be forced to react to such a blatantly "beggar-my-neighbor" policy. This reaction would lead to reduced sales of U.S. agricultural commodities and capital goods to Japan.

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consequential trade sectors. The areas in which our trade is most competitive will be placed at risk. Estimates of the amount of U.S. exports vulnerable to retaliation have exceeded $15 billion. U.S. farmers, aircraft manufacturers, producers of high-technology products and sellers of services among those who can ill-afford drastic reductions in their markets. Certainly, the United States cannot risk such injury to its domestic and international markets.

Were domestic content legislation to become law, the climate for negotiations with Japan on the other trade matters would surely be chilly. We would lose the opportunity for increased internationalization of the yen, for satellite purchases, for reasonable software copyright protection, for GATT coverage of services, etc.

4. The world trading system is witnessing a dramatic increase in the imposition of domestic content requirements, particularly by less developed trading nations. The United States has strongly objected to these non-tariff barriers because of their effect on U.S. exports. Enactment of S. 707 would nullify our attempts to seek their removal and—just as the bill seeks to keep foreign automobile exports out of the U.S. market—would result in the loss of key foreign markets to U.S. exports.

5. These extremely high costs to the domestic economy and to non-automotive trade sectors would be paid without conferring equal benefits on the U.S. automobile industry and its work force. One certain conclusion which can be drawn from the many studies done on the potential overall employment effects of H.R. 1234 is that we cannot expect complete rehiring of the unemployed portion of the automobile and auto parts workforce.[2] Government studies predict a net loss of jobs in the overall U.S. workforce. Neither government studies nor responsible independent studies agree with the vastly overstated auto industry employment predictions of the bill's proponents.

6. S. 707 is virtually certain to damage the U.S. economy and raise costs to the consumer far out of proportion to the economic gains resulting from the rehiring of another 150,000 autoworkers. This nation is surely the loser if increased employment in one labor sector is met by lost jobs in other sectors, a serious increase in inflation, and decreases in world market access for U.S. agriculture and our vital growth industries.

7. While an avowed aim of supporters of S. 707 and similar legislation passed by the House is to force more production of Japanese cars in the U.S., this cannot be the result. Wharton economists state:

"While the framers of local content legislation argue that the Japanese could move production facilities into this country, it does not provide any incentive for Japanese automakers to increase U.S. production above currently planned levels. Under local content legislation, the Japanese automakers would face unrealistic

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The value of the U.S. export sales loss would be approximately equal to the value of the loss of Japanese auto sales to the United States . . ."

And on pages 12 & 13:

"If the United States were to initiate a trade war by enacting local content legislation, the United States and Japan would both lose income and jobs, and the negative effects would spill-over into other countries. After a decade of oil crises and stagflation, the industrial countries' economies are expected to experience a sluggish recovery, leaving unemployment rates high by historical standards. As a result, governments will be quick to react to any event that would cause their country's economic outlook to deteriorate.

"U.S. local content legislation followed by Japanese countermoves could thus initiate a chain of protectionist moves. Other developed countries could introduce measures designed to protect their own industries from import competition, increasing the pressure on others to do the same. The less developed countries would also be forced to cut their imports as a result of a loss in export sales and the existing overhang of debt.

"The implications of the chain of protectionist moves described above were estimated using Wharton's World Model. World trade activity by 1991 could be cut 4%, or $73 billion (1972$). In terms of export sales losses, the United States and Japan suffer the largest cuts, followed by other developed countries, the less developed countries, and the centrally planned economies."

[2] The University of Michigan "Joint U.S. Japan Automotive Study—Final Report" suggests that the following lessons can be learned from auto industry in the two nations: ". . . key lessons to be learned are increased communication between industry and government, joint discussions about current trends and future problems and a long-term focus on the issue of international competitiveness. In the case of the United States, governmental efforts to improve the international competitiveness of American industry cannot be continually subordinated to domestic policy or defense policy concerns without serious long-term damage being inflicted on industry and those who depend on it for their livelihoods. In this connection, it is clear that many of the currently unemployed automobile workers are unlikely to be rehired. Public policy to aid reemployment should be examined, as should regional policy to redevelop areas dependent on the automotive industry. Both Europe and Japan provide several models of public-private cooperation in such programs that merit serious investigation."

time limits, rigid specifications of domestic content, and the likelihood that the United Auto Workers would be in a position to dictate labor contract terms." [3]

8. The U.S. automobile industry and its work force despite strong auto sales gains, still needs to be assisted in a positive way. This domestic content bill is a negative sum solution. The United States must provide an economic and regulatory environment which facilitates the industry's current efforts to increase productivity and quality while maintaining competitive prices.[4] We are not discussing an antiquated and moribund industry, but rather a dynamic group of companies which as shown the potential for regaining the highest levels of international competitiveness. Government solutions which damage the international economy will only impede the industry, while U.S. efforts to stimulate the international economy will aid the industry's efforts and benefits all U.S. citizens.

It is the interest rate differential which must bear much of the blame for the capital flows which ave strengthened the dollar far beyond the level indicated by industrial competitiveness. The differential also strikes a long-lasting blow at the competitiveness of our capital intensive industries, as these industries must invest in plant and equipment at interest rates deriving from a prime rate double that facing Japanese industry.[5] There can be no solution to the problems of U.S. international competitiveness until out budget deficits are curbed.

9. In its escape clause investigation of the automobile industry, the International Trade Commission found that imported automobiles were not a substantial cause of the domestic industry's difficulties.

What the ITC did find was a U.S. auto industry, supremely dominant in the only large car market in the world, suddenly thrown into disarray by massive oil price increases which dictated a consumer demand shift to small, fuel efficient cars at the vary time that the U.S. economy was descending into a recession characterized by unusually high interest rates.

At the same time, the U.S. industry, weakened by lack of competition, was confronted by a highly efficient Japanese small car industry, its aggressive spirit honed by years of tough competition among not 5 but 9 independent automobile manufacturers. Further, the Japanese were already geared to export from a home market manufacturing base, in contrast to the U.S. manufacturers pattern of overseas sales based on overseas production. Thus, attempts to curb the trade in imported automobiles is ill-focussed and cannot resolve the real problems, which include the misalignment of U.S.-Japanese currency exchange rates and tax system differences.

10. While S. 707 would prevent the U.S. auto industry from buying parts from wherever in the world sourcing is most advantageous, our foreign competitiors will suffer no such restrictions. The demise of the U.S. "world car" would mean the end of any possibility of the internationally competitive U.S. auto industry that the proponents of domestic content legislation claim to seek. Permanent protection would then become necessary, and all export hopes ended. Protection itself destroys the incentive to modernize and to hold down costs in other ways.[6] As stated by Peter F.

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[3] Wharton Report, *supra* note 1, at 10.

[4] The Wharton and other studies speak of technological and managerial advances which mean less man-hours per car, and of the reduction in unit sales due to selling price increases far above the general rate of inflation brought on by the Japanese voluntary restraints on unit sales. The Wharton study sees a permanent loss of 150,000 auto industry jobs due to productivity gains. Further employment losses would come from demand reducing price increases should S. 707 become law.

[5] The Wall Street Journal for May 7th shows the Japanese prime rate as 5.70%, and the U.S. prime rate as 12.0%.

[6] Many voices support this view. The University of Michigan study previously cited reads in part:

"Restriction of competition, whether from cartelization or import restrictions, would lead to a decline in technological innovation and therefore the incentive of manufacturers to service in a timely fashion consumer demands.

"Yet, one cannot ignore the existence of crucial macro political and economic problems such as national and international economic slumps, rapidly shifting trade imbalances as exchange rates respond to surges of financial flows, and the process of politicization of the issues that inevitably accompany such events as rising unemployment levels. While various measures to accommodate to these pressures will understandably be taken, these measures must not be allowed to protect permanently the industries of the advanced industrial nations. To allow this to happen would not only weaken the technological competitiveness of the automotive industry in specific country in question, but would also discourage the ongoing dramatic changes in: management philosophies, human resources development and labor relations, manufacturer-supplier relations, and manufacturing processes. Such permanent protection would lead to a choking of the future potential of the industry and cause it to decline along the lines of the steel and shipbuilding industries.

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Drucker in The Wall Street Journal, ". . . protectionism no longer 'protects'. It only aggravates industrial decline and creates unemployment." [7] This conflict between protection and competitiveness cannot be resolved, if domestic content auto legislation becomes the law of the land.

11. S. 707 ignores the remarkable turn-around of the domestic automobile industry. Experts from the automobile industry will tell the Senate of the gains in sales and profits in the automobile and auto parts industry which have followed 1984 improvements on both the demand and the supply sides.

12. Any substitution of a Congressional "finding" of injury to the automobile industry for the Congressionally mandated rigorous ITC escape clause investigations would bring other import sensitive industries to Congress for the same treatment. Political presssures generated in this election year would be as unbearable as the results therefrom.

13. The less developed countries, in many instances, are struggling to maintain political economic and social stability in the face of the huge debt burdens. (High U.S. interest rates are a key factor here, too). These countries cannot stand the added burden of trade wars, nor can U.S. exporters afford further losses of LDC markets.

Despite the seriousness of the effects just described, AAEI is even more concerned about the more subtle damage the bill would do to the world trading system—a system this country has promoted and carefully nutured for over thirty years. Enactment would not just invite others to engage in a trade war, it would also stand as a rejection of the discipline which is the underpinning of that system. It has been United States policy to exercise that self-discipline and to persuade by example. As a nation we have, by and large, tried to keep our markets open and have abided by the rules and purposes of the GATT. We have believed that as the largest trader in the world we could do more for ourselves in the long run by promoting that system and resisting temptations to violate its rules for short term benefits. We must lead the move for a strengthening, not a weakening, of GATT rules. We must lead a move to bring services under GATT rules. The policy reversal contained in this bill would severely damage the GATT system, possibly to an irreparable degree.

While a whole series of government and private studies show that the on-balance results of domestic content automobile legislation such as S. 707 are extremely negative, proponents of the similar House-passed bill, H.R. 1234 gained support though their attempts to convince Congress that the Eckart amendment has made H.R. 1234 compatible with what GATT obligations they see, and therefore unlikely to call forth retaliation upon U.S. exports. This is a gross misunderstanding of GATT regulations.

That House domestic content supporters were doubtful of their case is shown by the clause in H.R. 1234 denying U.S. Court jurisdiction in disputes over H.R. 1234. If this jurisdiction clause is truly neutral, as some proponents claim, there would either be no need for the clause which states: "Nothing in this Act shall be construed to confer jurisdiction upon any court of the United States" in matters arising from H.R. 1234, or, alternately, could have read ". . . to confer or to deny jurisdiction. . ." Proponents know that were domestic content legislation to become law, pushing all remedies into international tribunals would delay the judicial overthrow of domestic content for many years.

An international trade panel of the GATT has already declared illegal the Canadian FIRA requirement that companies investing in Canada buy a certain percentage of their supplies from Canadian manufacturers. And this decision came in response to an American complaint! Now the Senate has before it S. 707, a law embodying these same illegal principles. Should S. 707 become law, this country could be placed in the humiliating position of having its very own briefs in the FIRA case quoted against it, before the very same GATT tribunal!

Proponents of domestic content legislation in the House, in the Majority Report of the Energy and Commerce Committee, seem to deny that the GATT is a binding obligation of the United States, instead seeing the GATT as an executive agreement which does not bind the United States as a treaty does. However, the then President had full legislative authority from Congress, (granted in the Trade Agreements Extension Act of 1945), when he negotiated the GATT, so that the GATT does have the same status as a treaty. Stated in another way, the President had in advance the

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"A related outcome of such stagnation in technological progress would be that the comparative advantage in automobile production currently held by the industrialized nations would quickly dissipate."

Final Report, *supra* note 2, at 21.

[7] *The Wall Street Journal,* editorial page, Friday, April 21, 1983.

advice and consent of the Senate when he negotiated the GATT. Having obtained the legislative grant of power to enter an agreement on tariffs and trade, the President entered such an agreement with the Constitutional power to make a fully binding agreement without post-agreement Senatorial advice and consent.

We quote some of the legislative history, to clarify the point further.

The GATT was negotiated under the authority of the Trade Agreements Act of 1945, which renewed the President's existing authority under the Reciprocal Trade Agreement Act of 1934.

That the 1934 law was enacted specifically to permit the creation of a binding executive agreement not requiring later advice and consent of the Senate to have the force of a treaty, is made clear by the following statement of Senator Walter George, (a statement made during the 1934 debate):

"If the contemplated agreement to be effective should require Senate ratification, there would be no need for the proposed legislation, inasmuch as the President would then simply negotiate a treaty which, if ratified by the Senate, would have the effect of changing the tariff rates.

"Authorities on foreign relations aspects of constitutional law see parallel cases in the Lend-Lease program, carried out under an executive agreement entered into pursuant to the Lend Lease Act, and to our post World War II agreement providing security assistance to Greece and Turkey, agreements entered into under prior rather than post legislative authority." [8]

(As we do not wish to leave our statements on GATT having the force of a treaty and the compatability of H.R. 1234 with the GATT unsupported on these issues, we ask that you consider the supporting texts in the Appendix.)

While the majority report on H.R. 1234 correctly claimed that the Congressional Research Service (CRS) states that "some courts apparently refuse to gave full legal affect to GATT since Congress never ratified it", the CRS gives misplaced reliance to the one case it cites. This District Court case [9] was affirmed on grounds other than the question of the treaty status of the GATT. (We cite in the Appendix six other cases and a law journal article by Professor John Jackson in support of our view).[10]

How, then does S. 707 violate the GATT?

The domestic content requirements of S. 707 directly violate Article III of the GATT. Paragraph 5 of Article III provides:

"No contracting party shall establish or maintain any internal quantitative regulation . . . which requires directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources." [11]

There is no dispute that domestic content is inconsistent with this provision. Professor John Jackson, probably the leading American authority on the GATT, makes this point clearly in his treatise on the GATT:

"Mixing requirements received extensive consideration by the draftsmen. For example, a requirement might be imposed that margarine contained at least 20 percent domestically produced margarine or butter. *This would violate the GATT obligation.*[12] [Emphasis added.]

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[8] American Law Institute. *Restatement (second) of Foreign Relations Law,* 132, 138 (1965) and D. O'Connell, *International Law* 206–7 (1970).

[9] *Sneaker Circus, Inc.* v. *Carter,* 457 F Supp. 771, 795 (E.D.N.Y. 1978), and 614 F 2nd 1290 (2nd Cir. 1979).

[10] a. *K.S.B. Technical Sales Corp.* v. *North Jersey District Water Supply Commission* 75 N.J. 272, 381 A 2nd 774, 778, appeal dismissed, 435 Vis. 982 (1977). "GATT is by virtue of the Federal Constitution, 'the supreme law of the land.' "

b. *Baldwin—Lima—Hamilton Corp.* v. *Superior Court,* 208 Cal. App 2nd. 803, 25 Cal Rpts. 798 (1962) (California statute held unenforceable because inconsistent with GATT).

c. *Calnetics Corp.* v. *Volkswagen of America,* 532 F 2nd 674, 693 (9th Cir. 1976) cert. denied 429 U.S. 940 (1976). (Circuit Court directed District Court to fashion antitrust remedy consistent with GATT).

d. *Territory* v. *Ho,* 41 Haw. 565 (1957). (Territorial Statute invalid because unconstitutional and inconsistent with GATT).

e. *Walter Helm & Co.* v. *Hardin,* 449 F 2nd 1009 (D.C. Cir. 1971). (Court considered whether certain agricultural laws violated GATT).

f. *China Liquor Distribution Co.* v. *U.S.,* 343 F 2nd 1005 (C.C.P.A. 1964) cert. denied, 380 U.S. 962 (1965). (Court considered whether certain federal taxes violated GATT).

g. John Jackson, "The General Agreement on Tariffs and Trade in United States Domestic law," Mich L. Rev. 249 (1967). (Prof. Jackson concludes that the relevant portion of the GATT have the same status as a treaty under domestic law).

[11] GATT, Art. III 5. 61 Stat. (5) (6), T.I.A.S. 1700, (1948) as modified by Protocol of Provisional Application, 62 Stat. 3679, T.I.A.S. 1890 (1948).

[12] J. Jackson, *World Trade and the Law of GATT* 289 (1969).

Domestic content also violates paragraph 4 of Article III, establishing the principle of "national treatment." Article III, paragraph 4 provides:

"The products . . . of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favorable than that accorded to like products of national origin. . . . [13]

S. 707 would deny the right to sell certain imported automobiles in the United States solely because of their foreign origin and their success in the U.S. market. In so doing, the bill would deny such automobiles the right to treatment no less favorable than U.S. automobiles, and thus would violate paragraph 4.

Article XIX of the GATT, commonly called the "escape clause," provides that a country, under certain circumstances, can suspend GATT obligations with respect to trade in a product if the product is being imported in such increased quantities as to cause or threaten serious injury to the domestic industry.[14] The S. 707 remedy does not meet the Article 1a requirement for two reasons. First, Article XIX permits only temporary suspension of a GATT obligation, while S. 707 by its terms will restrict imports indefinitely. Second, whatever injury the automobile industry has suffered (or will suffer in the 1980's) has not been caused by unforeseen circumstances and GATT obligations, both necessary prerequisites to Article XIX action. Third, Congressional "findings" not supported by a carefully developed factual record do not meet GATT standard for escape clause procedures.

Article XIX provides that a country can suspend application of the GATT "to the extent and for such time as may be necessary to prevent or remedy such injury."[15] S. 707, however, is permanent by its terms. It applies to model year 1985 and each model year thereafter. Moreover, the rationale of S. 707—to effectuate a massive flow of foreign automaker investment into the U.S. involving billions of dollars—would represent, by its very nature, a permanent shift in worldwide production. Such action goes far beyond the limited scope of the Article XIX escape clause.

Article XIX applies only if increased imports and injury to an industry are cause by "unforseen developments" and by adherence of the injured party to GATT obligations.[16] Legal scholars and other commentators agree that if these prerequisites are not met, a party cannot suspend its obligations under the terms of Article XIX.

In his authoritative treatise on GATT, Professor Jackson concludes that "the *absence of either* a GATT obligation with respect to a product or of an "unforeseen development" leaves this prerequisite to Article XIX unfulfilled . . ."[17] Kenneth Dam, another leading GATT authority and now Deputy Secretary of State, stated in his book on GATT:

"Causation must be established under each of three interrelated but different result of the concession sought to be suspended; that is to say, *there is no right to take action under Article XIX if the injury would have occurred in any event.*

"Second, the injury must be a result of unforeseen developments . . . .

"The third causal standard to be applied—which a U.S. lawyer might term 'proximate cause'—involves 'increased quantities of imports' " [18] [Italic added.]

The same position has been taken by other GATT experts, including Jan Tumlir of the GATT secretariat,[19] Gerald Meier of Stanford University [20] Jagdish Bhagwati of the Massachusetts Institute of Technology,[21] and Thomas Sawermilch.[22]

The U.S. assumed its obligations under the GATT in 1948, and has granted no significant automotive products trade concessions in recent years. Thus, recent difficulties in the automotive products industry have not been caused by GATT obligations. On the contrary, in 1980 the U.S. International Trade Commission held that the most import causes of injury to the automobile industry were the recession and a shift in demand caused by perceived quality differences and consumer preference for more fuel efficient cars and by perceived quality differences.

To support its argument that these prerequisites to Article XIX need not be met, House proponents of domestic content legislation relied (last year) exclusively on a letter prepared by the Congressional Research Service ("CRS"). This reliance is misleading and misplaced. First, the CRS was not even asked to comment on the House's "domestic content" bill, H.R. 1234. Rather, the Committee took out of context a CRS letter addressing H.R. 3113, a bill to create a special procedure for the ITC, after thorough inquiry, to determine whether the U.S. automobile industry is entitled to relief under the escape clause. Second, the central contention in the CRS letter is supported with almost no authority. The CRS contends that "[T]he requirements in the phrase "as a result of unforseen developments and of the effect of the obligations incurred . . . under this Agreement" are apparently of no practical significance. . . ."

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[13] GATT, *Supra* note 11, Art. III, para. 4.

[14] GATT, *Supra* note 11, Art. XIX(1)(a)(b).

[15] GATT, *Supra* note 11, Art, XIX(1)(a).

[16] GATT, *Supra* note 11, Art, XIX(1)(a).

[17] J. Jackson, *Supra* note 12, 559.

[18] K. Dam, *The GATT* 101 (1977).

[19] J. Tumlir, *A Revised Safeguard Clause for GATT?* 7 J. World Trade L.404, 405 (1973).

[20] G. Meier, *Externality Law and Market Safeguards: Applications in the GATT Multilateral Trade Negotiations,* 18 Harvard International Law Journal, 491, 494 (1977).

[21] J. Bhagwati, *Market Disruption, Export Market Disruption, Compensation and GATT Reform,* 4 World Dev. 989, 992–3 (1976).

[22] T. Sawermilch, *Market Safeguards Against Import Competition: Article XIX of the General Agreement on Tariffs and Trade.* 14 Case w Reg. Journal of International Law 83, 94 (1977).

The CRS's sole support for this assertion is one sentence in an English legal treatise;[23] the CRS simply ignored the overwhelming preponderance of legal opinion, discussed above, that gives considerable weight to these requirements. Third, the CRS notes that under U.S. law the International Trade Commission ("ITC") is not required to make findings of unforeseen circumstances or causation by GATT obligations before recommending that the President grant escape clause relief. The CRS suggests that the absence of such a requirement means the U.S. need not comply with the prerequisites of Article XIX of the GATT. This is incorrect. As stated by the American Law Institute:

"The duty of a state to give effect to the terms of an international agreement to which it is a party . . . is not affected by a provision of its domestic law that is in conflict with the agreement or by the absence of domestic law necessary for it to give effect to the terms of the agreement." [24]

Thus, the U.S. can claim the protection of Article XIX only if the prerequisites to Article XIX have been met.

In an escape clause case, the ITC holds hearings and solicits extensive testimony on the economic issues of the case, including the industry definition, the existence of increased imports, the existence and seriousness of the injury to the domestic industry, the causal link between imports and injury, and the economic justification of various remedies. All parties to a dispute are invited to submit data for analysis by the ITC's professional staff and to present detailed, focused arguments on each of the key issues.

Some supporters of domestic content legislation may suggest that the addition of an Eckart amendment to S. 707 will solve GATT questions. Yet the process leading to the Congressional "finding" in H.R. 1234 stands in stark contrast to thorough ITC hearings. There were no hearings specifically focused on the individual issues of an escape clause case. Indeed, during the hearing on S. 707, the Committee will hear testimony demonstrating recovery by the domestic industry to record highs in profitability and a wide range of factors that may have contributed to its previous injury, including: general economic downturn, high interest rates, changing consumer preferences, preceived quality differences, imbalances in international currency rates, relative tax differences, oil prices, impediments to joint R&D resulting from U.S. antitrust laws and many other factors. These Senate hearings are neither intended nor designed to address specifically or systematically the many factual issues inherent in an escape clause determination. No briefs will be submitted by interested parties, and no thorough analysis of the industry was undertaken. No report will be published justifying-due-to-imports findings in economic terms, and no record will be established. Nor was such a record established by the House.

The GATT requires that the necessary preconditions of escape clause relief actually exist, not that they merely be declared by a government body. The "findings" in Section 2(a) of H.R. 1234 have no substance, and therefore are likely to be challenged by the members of the GATT, both before a GATT tribunal and in terms of the retaliatory action against U.S. exports permitted under the GATT rules.

All the above being said, one must further remember that even if an Eckart device brings S. 707 into conformity with the GATT requirements were successful, the right of retaliation by countries adversely affected would be in no way diminished!

The right of a party to suspend a GATT obligation under Article XIX in appropriate circumstances triggers a corresponding right of adversely affected parties to compensation. Thus, whether retaliation arises under the basic GATT enforcement provisions of Article XXIII or under the escape clause provisions of Article XIX, U.S. exports would be jeopardized by enactment of H.R. 1234 or S. 707.

Whenever a country invokes Article XIX to justify action otherwise inconsistent with its GATT obligations, adversely affected countries are entitled to suspend "substantially equivalent obligations or concessions" under the GATT.[25] For example, when the U.S. withdrew a GATT tariff concession on dried figs, citing Article XIX, is granted compensation to Greece and Turkey.[26]

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[23] E. McGovern, *International Trade Regulation*, 230 (1982).

[24] American Law Institute, *Restatement of Foreign Relations Law*, 140 (1965).

In addition to violating the GATT, S. 707 also violates our 1953 Treaty of Friendship, Commerce and Navigation with Japan, and other treaties with other nations which mutually guarantee national treatment to foreign products. (Across the board quotas and tariffs are exempted from such treaties.) This is undoubtedly true with respect to automobile parts as well as cars, and as the Treaty with Japan reads in part:

"Products of either party shall be accorded, within the territories of the other party, national treatment and most-favored nation treatment in all matters affecting internal taxation, sale, distribution, storage and use."[27]

While this Treaty, ratified with the advice and consent of the Senate, provides that either party may take actions consistent with the GATT, other provisions of the treaty notwithstanding [28] there is no relief here for proponents of S. 707, as we have seen that S. 707 does indeed violate the GATT.

The section of GATT compatibility of the Eckart Amendment and on other Treaty obligations is based on a study by Hogan and Hartson.

### CONCLUSION

S. 707 is a proposed law violating the whole thrust of U.S. trade expansion efforts and leadership. It violates the GATT and other treaties. It has negative effects on net employment, on the competitiveness of our automobile and automobile parts industries, on consumer choices and positive effects on the U.S. inflation rate. Because passage would spur domestic inflation, the international competitiveness of all U.S. industries would suffer.

The American Association of Exporters and Importers joins a host of other concerned organizations—farm—trade—manufacturing—civic—consumer—and General Motors and Ford Motor Company in asking the Senate to defeat S. 707.

The **Chairman**. Thank you.

We will conclude this morning with Earl Pryor, who is a successful wheat rancher fron Condon, but at the moment is the president of the National Associaton of Wheat Growers. I've worked with him for at least a decade. Earl.

## STATEMENT OF EARL PRYOR, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. **Pryor**. Good morning, Senator.

The **Chairman**. Good morning.

Mr. **Pryor**. It is fitting that I am sitting here in the cleanup position, particularly here in Oregon, where the base of our industry is agricultural.

Speaking in broad terms, in this Nation we have a factory of about 2.4 million farmers. This generates a food factory producing consumibles valued at about a trillion dollars plus. We are talking about 20 percent of the gross national product. We are talking about 24 million jobs, 23 percent of the work force and a $38 billion positive trade balance for the United States when we talk about this total group of workers.

The legislation that is under discussion here today does not represent a positive step toward solving the economic ills of our Nation. It is a punitive measure and it strikes out against important U.S. trading partners without contributing to the job-generating capacity of our own economy or to the overall strengthening of our economic activity.

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[25] GATT, *Supra*, note 11, Art. XIX (3)(a).

[26] U.S. Tariff Commission, *Operation of the Trade Agreements Program*, (8th Rep.) 55–57 (1955).

[27] Treaty of Friendship, Commerce and Navigation, April 2, 1953. United States, Japan, Art. XVI(1), 4 U.S. T 2063, 2076 T.I.A.S. 2863.

[28] *Id.* Art. XXII (1) 4 U.S.T. at 2079

The Nation's policymakers must take a comprehensive approach in solving the problems associated with our growing trade imbalance. Economic stress is created by both export-dependent sectors such as agriculture, as well as import competitive sectors such as the automobile industry. The trade deficit is being caused largely by macroeconomic factors which can only be turned around through significant monetary and fiscal policy changes. Consistently high interest rates, for example, continue to attract foreign investment which bids up the value of the dollar. Since the fourth quarter of 1980 the dollar has purchased 13 percent more yen, 40 percent more marks, 59 percent more British pounds, and 83 percent more francs. A strong dollar results in expensive bushels of wheat on world markets. The consequences are flagging export demand and lower prices for producers.

The answer for the wheat industry is not found in economic adjustments to aid our industry while harming another. Some industries have sought trade remedies which have done a great deal of harm to others, however. The wheat industry lost $500 million worth of exports to China in 1983 while U.S. textile interest argued for protection of $50 million of textile products from China imports. There are 80 to 90 percent unemployed in that industry. We thought it was not too good a trade as far as we were concerned. Protectionist actions such as this injures other sectors while aiding a few targeted beneficiaries.

However, production cutbacks as a means of tightening supplies in the face of weakening demand has been implemented in our industry as a temporary adjustment. Increased use of export credits and guarantees, food donations and concessional sales to needy countries, and other forms of export assistance have also been encouraged by our industry. These policies do not harm other industries. On the contrary, increased export activity makes a twofold contribution to domestic economic activity.

The same strong dollar which slows export demand for product, such as wheat creates more consumer interest in imports. The domestic auto industry has reacted to increased competition from abroad with demands for restricted access agreements with the Japanese and other auto exporters. These protectionist demands, once met, were followed by the formulation of domestic content legislation. The fallacy of these remedies is that they effectively shift the problems of one industry onto another, as we heard here in our panel, rather than focusing on correcting underlying problems of the economy in order to advantage industry as a whole. According to the CBO, by 1990 the legislation which has passed the House would result in 104,000 lost jobs in the U.S. export sector while only 38,000 auto jobs would be gained. The job losses would result from trade retaliation by nations targeted in the domestic content bill, which is an obvious violation of international trade agreements.

Many of these nations are important wheat importers, such as Japan. Japan will be the second largest importer of United States wheat this year, with the Soviet Union the largest importer. The Japanese bought 579 million dollars' worth of United States wheat in fiscal year 1982-83. The Japanese market has been a consistent and reliable one, thriving from long-established ties with the United States wheat trade. If you will remember, the Oregon Wheat Growers League was the first commodity group of its kind to go abroad to establish a foreign trade office, and that office was in Japan. It has a long history of success.

Carefully planned market development activities in Japan over a period of more than 25 years has produced these results. U.S. wheat producers have been directly involved in the funding of these promotional projects with checkoff moneys from a wide variety of wheat-producing States contributing to the FAS cooperator program. Significant investment, as well as future trade potential, is threatened with the enactment of domestic content legislation.

Domestic content legislation is designed to strengthen the domestic auto industry which, by all indications, is well on the road to recovery. In the past year, 100,000 workers have returned to their jobs from layoffs, and indefinite layoffs in the industry are at their lowest point in 3 years. We learned just recently that auto executives have been rewarded with multimillion dollar bonuses following a record profit year for the industry. This led an angry U.S. Trade Representative, Bill Brock, to declare that the auto industry is no longer in need of special protection from import competition, and that the import agreement signed with the Japanese will not be renewed next year. Implementation of the domestic content bill would be an equally counterproductive and misguided action aimed at extending special protection to an industry which is, by all indications, regaining a competitive position in the auto sales.

Thank you very much, Mr. Chairman, for this opportunity to speak today. It saved me a $1,000 travel bill to get back to District of Columbia.

The CHAIRMAN. Earl, thank you very much.

In conclusion, it seems to me this is the situation we are in: Oregon, for better or for worse, is going to have to live in this world, the United States is going to have to live in this world and trade is going to be a part of that world. I think if we try to put up the barriers and say we are going to manufacture everything here, whether it is shoes, or clothing, or automobiles, or steel, or concrete, we will manufacture everything regardless of the cost; and we really won't worry too much about selling things overseas, we are 250 million strong. We will be our own market—that attitude will be our demise. It is going to increase the cost of all of our products. It is going to damage badly the export industries we have. And from Oregon's standpoint especially, we are going to live or die in this country on trade and especially trade in the Pacific rim area.

We couldn't be sitting in a better position. We have got good ports in this State, not just the Port of Portland. We have got good ports all over this State. We have got the kind of a work force and the kind of capital formation that ought to be the envy of most areas of the world, and if we will simply take advantage of the natural attributes we have, whether it is agricultural exports, whether it is paper, whether it is wood, whether it is oscilloscopes, we will do very well.

I cannot stand by as chairman of this committee and see legislation introduced and its passage attempted that is going to trade off Oregon jobs for jobs elsewhere. I will do everything I can to stop it, to fight it. I hope I am successful, and the evidence that you have given to the committee today is exactly what I need. I appreciate it very much. Thank you.

We are adjourned.

[Whereupon, at 10:25 a.m., the hearing was adjourned.]

# FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT

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FRIDAY, JULY 6, 1984

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
*Des Moines, IA.*

The committee met, pursuant to notice, at 9 a.m., room 118, State Capitol Building, Des Moines, IA, Hon. Bob Packwood (chairman of the committee) presiding.

## OPENING STATEMENT BY THE CHAIRMAN

The CHAIRMAN. The hearing will come to order, please. This is the fourth hearing that we have had on S. 707. We held two in Washington, DC, and one in Portland, OR. This one is the last scheduled so far, although I have indicated to Senator Riegle, who is here today and is the principal sponsor of this bill, that if he would like more hearings, I would be happy to accommodate him.

When people ask why Des Moines, why Iowa, I indicated I thought this was as natural a spot as any in which to hold these hearings in this country. First, you have a large United Auto Workers membership in this State. Second, you have a State that is heavily involved in agricultural exports, the second largest agricultural exporting State in the country, and as anyone who has dealt with the subject is aware, there is a strong difference of opinion between many segments of organized labor on this bill and most, not all, but most agricultural organizations. So I thought that in one State, in one town, we get all the crosscurrents that exist on the subject.

I might direct attention to a story in the Wall Street Journal today:

[The article follows:]

[From the Wall Street Journal, July 6, 1984]

### BIG THREE AUTO MAKERS ARE SEEN POSTING 64% INCREASE IN SECOND-QUARTER PROFITS

(By Robert L. Simison)

DETROIT.—The Big Three U.S. auto makers are expected to report booming profits for the second quarter, making first-half earnings equal to or higher than 1983's full-year record.

The industry is expected to post second-quarter combined profit of $3.1 billion, up 64% from a year earlier, reflecting a continued recovery in U.S. car and truck sales, increased popularity of high-profit models, limits on imports and benefits of restructuring, Wall Street analysts say. Second-quarter profits would have been even higher, but the West German metalworkers' strike reduced earnings of General Motors Corp. and Ford Motor Co.

The Big Three are expected to continue racking up healthy profits in the third and fourth quarters if there isn't a strike at GM or Ford. United Auto Workers contracts at GM and Ford expire in September; contracts at Chrysler Corp. run another year. Analysts have raised their full-year estimates for the Big Three by about $1 billion and currently forecast combined profits of nearly $11 billion, compared with 1983's record of $6.3 billion.

The Big Three's second-quarter earnings are expected to approach the first quarter's $3.2 billion, a record for any quarter.

U.S. auto makers built about 2.1 million cars in the second quarter, up 16% from a year earlier. The industry's earnings reflect sales of heavily equipped, high-profit cars and the industry's reduction of fixed costs during the past few years.

"They are running close to capacity and at optimum levels and earning about as much as they can," said David Healy, auto analyst at Drexel Burnham Lambert Inc.

The strike by the West German metalworkers union hurt GM more than Ford, analysts said, because more GM plants were affected. They estimated that GM's European operations lost as many as 90,000 units because of the strike, compared with about 25,000 for Ford's European operations.

Consequently, GM's second-quarter profit was reduced by about $150 million, or 50 cents a share, to about $1.3 billion, or $4.15 a share, analysts said. The second-quarter earnings still are expected to exceed by 2% the year earlier net of $1.04 billion, or $3.32 a share. GM's second-quarter profit also would have been higher except that it closed some plants earlier than usual to convert to new-model production later this year.

The West German strike reduced Ford's expected second-quarter profit by about $40 million, or 20 cents a share, to about $1 billion, or $5.50 a share, analysts said. Even so, Ford's second-quarter earnings probably rose 84% from the year-earlier $542.2 million, or $3 a share.

Lee A. Iacocca, Chrysler chairman, has indicated that Chrysler earned about $800 million, or $6.50 a share, for the second quarter. That would be more than twice the year-earlier net of $310.3 million, or $2.41 a share. Chrysler still isn't paying taxes on earnings because of credits related to its big deficits of prior years.

Only the possibility of a UAW strike in September mars the Big Three's outlook for the second half, analysts said. They expect rising interest rates to have little impact on car sales and think the auto makers will raise prices on new models this fall only moderately, perhaps 2% to 3%.

Some Wall Street analysts give a strike a low probability. "I'm more and more encouraged about the possibility of avoiding a strike. There is great clarity about the goals of both sides and a sense that nobody truly wants a strike," said Gary Glaser, an analyst at Sanford C. Bernstein & Co.

Assuming there isn't a UAW strike, analysts generally expect GM's third-quarter earnings to rise 36% to $1 billion, or $3.15 a share; Ford's 80% to $600 million, or $3.30 a share; and Chrysler's 199% to $300 million, or $2.50 a share. Because of short supplies of cars, the auto makers have sought to keep production up during the normally low-output third quarter by limiting plant closings for conversion to new models.

For all of 1984, analysts have raised their estimate for GM to $5.5 billion, or $17.50 a share, a 47% increase from 1983; for Ford to $3.2 billion, or $17.50 a share, a 71% increase; and for Chrysler to $2.2 billion, or $17.75 a share, a 214% increase.

I will put the rest of the Wall Street article in the record, but I am delighted to see that the auto industry appears to be fully recovering from what had been 4 or 5 rather traumatic years.

I would now like to call on a good friend and colleague from the Senate, Senator Riegle, who has an opening statement.

## OPENING STATEMENT BY SENATOR RIEGLE

Senator RIEGLE. Thank you, Mr. Chairman. I think I will borrow this microphone, if I may. Let me say it's a delight to be in Iowa. I would like to thank you for producing a beautiful day for those of us from out of State.

I will comment at the end of my statement about the auto industry sales and profit data that the chairman just referred to because there are some very important facts that have to be looked at at the same time. I will get to that in a minute along with my statement.

I want to say to everyone in this room today—I don't know what the new construction is that is going on out here, but I will try to talk loud enough so you can hear us over the jackhammers—that this is a very important national debate taking place.

As Bob Packwood says, It is significant and important in the sense that a part of this debate will take place today in this room in Iowa because the outcome of what we decide to do about some tremendously dangerous problems that face our country will depend upon our ability to have a meeting of the minds as Americans.

This is not a question that puts or pits industrial workers against farmers, although there are some people who would like to put it in that vein. That is absolutely a false notion. What we are looking at here is the question of what does America as a whole need? What must we do that is good for farmers, good for business people, good for auto workers, good for families, good for the United States of America?

That is the issue because our country today is caught in a worldwide trade war, and we are losing that war. We may have won World War II, but we are not winning this war, and the numbers very dramatically illustrate that.

This year alone we are going to have $120 billion of money in our Nation—representing jobs and national economic strength—leaving our Nation through the merchandise trade deficit. This will flow out of the bloodstream of the United States and go to other nations, making us weaker and making them stronger.

Now, this is absolutely unprecedented. We have never at any time in our history been faced with a situation where we have had a trade invasion of foreign goods coming into the United States and taking $120 billion of our national wealth out of the United States and taking it out permanently.

The implications of that are enormous, and we have to change it. We can't pay for the big national defense build-up some people want if we are not producing things here at home. We can't pay for it if we have a massive fiscal deficit and a massive trade deficit at the same time.

With this outflow of $120 billion of our national wealth in this trade war our money is being transferred to other nations. With that money goes millions of American jobs, including many of those jobs in the State of Iowa, the State of Michigan, where I come from, and all the other 48 States as well.

These jobs are being taken to other countries while there are still in our own country today some 8-10 million Americans who do not have jobs and who are looking for work.

We are losing this worldwide trade war because our Government and our Nation have failed to develop an effective strategy. The Reagan administration and Trade Ambassador Brock have failed to understand the strategic consequences of this trade war. America has suffered and has been put at great risk as a result.

This is an urgent problem of enormous consequence. The time has come for us to act upon it. What I have proposed here, with 16

Senate cosponsors, is one way to try to deal with that problem. I don't assert that it is a perfect way, but it is a workable way, an immediate answer. So if somebody has a better answer, I am willing to consider it, but no answer is not an acceptable response to an urgent problem that is facing our country. We have got to have a practical answer. That is what domestic content offers us.

Now, we are losing this trade war for many reasons, including predatory trading practices by other nations, foreign currency manipulation, and double trading standards where nations close their home markets to U.S. goods.

We are not able to sell all the Iowa beef that we would like to sell in Japan because there are barriers in the way. In fact, we can't sell most of our goods in Japan today on an unlimited basis because there are barriers in the way.

Yet at the same time, while many of these foreign nations are closing their home markets to our goods built by our people, they are flooding their goods into America. The lower the living and wage standards in those other nations give them cost advantages.

I say the answer to that is not to lower the living standard in the United States; it's to raise the living standard in Korea, in Japan and Singapore and the other nations that are leading this trade invasion.

Japan, quite frankly, is the worst offender. We have to be frank about it. She is an unfair trading partner who closes her markets to American goods while flooding surplus production into the United States.

It is presently draining over $30 billion a year from the U.S. economy by means of deliberately unfair trading practices. This Japanese trade invasion has weakened America, just as it has strengthened Japan.

The financial realities tell a grim story. Today unemployment in Japan is only 2 percent while it hovers near 8 percent in the United States.

The prime rate of interest in Japan today is 6 percent, 6 percent. What are farmers in Iowa paying today on money that they have to borrow? They are not paying 6 percent. They are paying at least twice that amount, if they can get the credit, and many can't get the credit, and it's not right.

In America today the prime rate is 13 percent. That's the rate that the best customer pays. As I say, the farmer in his business and in Iowa and in my State of Michigan is paying higher than that, if they can get credit at all. It isn't right.

Japan will ship nearly 2 million cars to the United States this year. They will buy only 2,000 American cars in return. While we provide the bulk of Japan's military defense, we must spend nearly 7 percent of our gross national product on free world defense while Japan is spending less than 1 percent of their gross national product on defense.

We have to wake up to what is going on here. That's why this hearing is being held. Of our $30 billion trade deficit with Japan, nearly half of it, over half of it, nearly $20 billion, represents the deficit for Japanese cars and trucks alone that are imported into the United States.

This hemorrhage of American capital and jobs has to be stopped now. Japan, which blatantly discriminates against U.S. products in the Japanese market, must end this trade imbalance now before permanent, economic damage is done to our country.

I say that America must stop being a doormat for ruthless and greedy trading partners who flood our markets but are shameless in their practices of blocking our goods in their markets.

Sadly, the traditional economists in our country have done little to illuminate the realities of this worldwide trade war or offer realistic strategies for coping with it.

Most economic studies that have been done are badly flawed. Some will be tried out here today. We will point out the flaws. They seem designed to ignore the trade practices that are ripping the heart out of American economy.

The cold, hard facts are that every nation on Earth, every single one, now practices trade restraints on foreign cars and trucks. Japan, while enjoying a 21 percent market share of U.S. auto sales, leads the parade in insisting on protective measures that protect its market from foreign imported cars, whether from our workers or those of any other Nation.

In fact, every nation on Earth has now adopted either domestic content laws or quota systems to limit the trade invasion of foreign built cars into their economies.

The United States, in fact, remains the most generous trading nation on Earth, offering nearly 30 percent of the U.S. car market to foreign suppliers. Japan, with 21 percent U.S. market penetration in cars, is now selling one out of every five cars sold in America.

I think that is pretty generous on our part to allow that kind of penetration into our Nation, particularly given our financial difficulties at the time.

Great Britain and Germany, for example, limit Japan to a quota of only 10½ percent, less than half of what they are given in this country. France has limited Japan to a meager 3 percent market share, and 30 other nations have adopted domestic content laws.

Do you know what is interesting? Japan has willingly accepted these limitations from all these other nations. They have accepted them because they know they are justified. There has been no General Agreement on Tariff and Trade, GATT, as it is called, complaints that has ever been filed on these issues, because Japan dare not file a GATT complaint because they are one of the worst offenders of the so-called fair trade laws.

The talk of retaliation is nonsense. It is usually spoken by those who work for the importers. Free trade in autos in the world market disappeared a long time ago, and that is the hard fact of life that we have got to face. The world has decided against free trade in automobiles, and we have to wake up to that reality.

The Government and merchants of Japan are playing us for fools. Our failure to meet this problem head on is doing severe and permanent damage to our economy and long-term financial strength.

That is why I have offered this legislation, as I say, cosponsored by 17 Senators. That's why the House of Representatives on a bipartisan basis passed this legislation last November by a vote of

219 to 199. It is why national public opinion polls show stong majority support for domestic content legislation.

In fact, polls taken right here in Iowa, among Iowa farmers, by the university show a strong margin in favor of domestic content. That is what the public opinion polls show right in this State.

People don't want their country damaged. America has been damaged enough. It's time that we start to do things that strengthen the United States of America and not just do things that favor the Japanese or some other foreign nation.

The time has come for those manufacturers that want to sell billions of dollars worth of cars in America each year to come into America with their profits and their capital and build their factories here, so that the sons and daughters of our families have a chance for those jobs and to build those cars right here in the USA.

The time has come to require the foreign car makers to build their cars with American parts and American labor. It's time they begin to use the steel and the glass and the rubber and the aluminum and the other components produced right here in America by our own people, because we need these jobs and we need this national wealth.

I will tell you something, the people who are here today to try to pit farmworkers and farmers against industrial workers are making a big mistake. The industrial workers and the other workers in our socity—when they are working and earning a paycheck, buy a lot more pork chops and a lot more beef than a Japanese worker does or a worker in Korea or a worker in Singapore.

We have to think about this Nation. We have to think about this Nation. I come from a major farm State. It's the second largest industry in my State of Michigan, and I fight hard for farmers, as hard as anybody in the Congress, and farmers need help because they are in terrible trouble today.

They are in trouble for other reasons, because we have lousy farm policies in this country, because interest rates are sky high, and because the farmers have gotten a raw deal. It's time that the farmers and auto workers got together to help each other. That's exactly what this legislation would do, as we will point out in the course of the day today.

We Americans can build cars as well as any people on Earth. If we can travel to the Moon and back, something that no other nation has managed, we can build products the equal of any nation.

We are told by Honda officials that cars built in America by American workers are every bit as good, if not better, than Honda cars built in Japan. This is no time for a national inferiority complex that surrenders manufacturing preeminence to Japan or to anyone else.

We can build anything here in America as well or better than any people anywhere, and it's time that we start working together to prove it. It's not time to surrender.

I would say, too, that the industrial base is vital to our Nation. It's vital in peacetime, and it's vital in wartime. We need these jobs now and in the future. We need these factories and these jobs so we can keep these billions of dollars here in the U.S. economy, moving to create other jobs and greater wealth and strength for our Nation.

Every trade deficit dollar we can keep here in the United States keeps moving through our economy. One worker's wages and taxes provides jobs for other Americans.

In the end, our overall national standard of living depends on our aggregate production and output, and we must reinvest a larger share of our wealth here at home and not ship it overseas.

In fact, we can't maintain our national standard of living if we are losing $120 billion a year of our national wealth to a trade deficit.

We can't continue to paper over the financial peril that is facing our country with massive annual $200 billion Federal deficits, sky high interest rates—your local paper today says the loans on commercial banks are going higher—bad loans to Third World countries that can't pay their bills, consortium bailouts of big banks that have made bad loans, continuing high unemployment, inadequate savings rate, and a 5-year U.S. defense spending plan totaling $1 trillion.

Well, if we are going to pay for it, we have got to have people earning at jobs in the United States so we can pay those taxes so we can pay those bills. It's a fool's paradise to think we can go on at the present time as I have described. We must sharply reduce this massive trade deficit. We have got to generate more value-added national product. We have got to put more Americans to work earning and saving more, and thereby reduce the Federal Government deficit that cannot be sustained.

That's how we get the interest rates down, and that's the only way we are going to get them down.

We have only two choices on cars and trucks given the world we now live in. It's either quotas on imports with arbitrary allocations for individual foreign manufacturers—I don't think that is the best route—or domestic content legislation with wide open competition.

With domestic content, we are telling all the manufacturers around the world, you are free to come to America. Come here. Build your plants. Design it just the way you want. Use the manufacturing process that you think makes the most sense. You are free to win the largest share of the domestic market in terms of sales that you are able to win with head-to-head competition.

That is the American way. It always has been, and it's the way it has worked in the past. The work and the wealth created will occur here where it is needed and where the car buyer's purchase price will recycle back through our economic system to provide downstream economic benefits, wealth and a job for that very same car buyer.

So we Americans must stop fighting ourselves. We must not allow foreign countries to drain away our national wealth and out productive capacity. We must fight to keep the best jobs here in America because our national family of workers and their children are going to have to have those jobs in the future.

It's not enough to tell all the kids in this country to go down to McDonald's or Wendy's and find a job at $3.35 an hour flipping hamburgers while the Japanese and their kids in that country are getting the good jobs, building computers, building cars, doing the industrial work that we need to have for our people.

This is a critical national issue, and our living standard is at stake. We here in America carry unique leadership burdens in the world. Our worldwide defense commitments reveal this in very stark terms.

We have to act now to preserve and build America's economic strength. We must avoid a looming financial catastrophe. This can only be done if we can work and earn our way back to financial solvency, and that is just as true for an auto worker in a factory as it is for a farmer out in the land here in Iowa.

People have to have a chance, and it has to be in a situation where they have a fighting chance to make it. That's why we have to work together to accomplish this. We have to end this trade deficit and seek a balance of trade. That's what we are looking for.

Domestic content will bring our jobs back home, bring our dollars back home, and give this generation and future generations the chance to work and earn the living standards that we deserve.

I would just say, as members of the Senate, we are not members of the Japanese diet. We don't belong to their legislative body, and we are not here to look out for the workers in Japan. We are here as members of the U.S. Senate to look out for the people in this country. That is our first obligation.

Frankly, we have not met it sufficiently, and that is why we are in the kind of economic trouble we are in today. Our commitment is not to the Japanese worker and the foreign countries. It's to our own Nation and our own people, so we have got to stop this trade invasion while we still have the strength to do so. That is what this legislation will accomplish.

The chairman earlier talked about the automobile profits just being announced today. This is today's Wall Street Journal. I urge you to read it. If you turn to yesterday's closing prices on the New York Stock Exchange, you will find the whole story in one bottom line, and that is the price of the financial markets.

I believe in a free market, financial market system, but the financial markets today are saying that they are so concerned about the future of the auto industry, despite those high profit figures and high sales figures, that they are only willing to pay prices for the auto stocks that give us the lowest price earnings ratios that we have ever seen in the auto industry at a time when the economy is going strong.

Here is General Motors, the premier company in the industry, selling at four times earnings yesterday, yesterday, in the New York Stock Exchange. Ford Motor Co. only selling at three times, Chrysler only selling at three times earnings, even utility stock in big trouble with nuclear plants and so forth are selling at six and seven and eight times earnings.

We have never seen a situation where the financial markets have been so apprehensive about the future of major industrial companies as we are seeing at the present time in the auto industry in terms of what people are willing to pay as recently as yesterday in their own capital for these stocks.

Finally I want to say one other thing about the situation with farming, because I come from a family where both sides of my family were in farming one generation ago. As I say, my State has farming as the second largest industry.

Iowa is sensational as a farming State. There is no place else anywhere in the world more productive in terms of farming and agriculture than this State, but let me tell you what we are seeing.

Farm foreclosures are rising rapidly. We have had 200,000 farms forced out. The independent bankers say 17 percent of farmers this year will be unable to meet their payments in 1984, 17 percent. The number is rising. They also predict that 66 percent of the farmers in this country are going to have a decline in net worth this year. There has been a 30-percent decline in land values, farmland values, since 1981 reducing farm equity and making it even harder to get loans.

Interest costs as a percent of farm production costs has risen 170 percent since 1978 and is now running at 17 percent of the cost of production.

And look at the Reagan PIK Program. We can talk about that for the rest of the day. That's something we ought to come out here and have a hearing in Iowa. One of the most expensive programs in history and the biggest chunk of the money went to Chevron and Superior Oil, and it did not go to the farmers.

They are coming to me all the time in my State and talking about it because they can't take the high interest rates because we are not producing enough'this the country at the present time.

Our deficits are soaring. We have got to get the deficits down. We can't walk away from the industrial based industries because we need those jobs. We need that national income. We need those tax revenues to bring down the deficits, to bring down the interest rates so farmers in this country have a chance to survive.

I will finish by saying this. When I saw that the Japanese the other day, they agreed finally that they have a very tight limit on the foreign beef, from our country and other countries, that they will allow more in their country.

They are far more stingy than they are with letting in our products. They said over a period of time they would allow us to go up to 8 percent of the Japanese markets. It's about $2.50 worth of beef per Japanese citizen.

I will tell you something. If we have people working in this country—I am talking about our own citizens earning a good living, making cars, making aluminum, making rubber, making glass—they will spend that money on pork chops and beef grown here in Iowa. You think they are not going to spend more on farm products from this State? Of course they are.

The way we help is to make our country strong, and to have the jobs and keep the jobs in the United States. Anybody that thinks we can kiss off $130 billion a year and let it go outside the country, that it doesn't matter, that person is a fool, and that is a generous description.

We can't afford that. The farmers of Iowa can't afford that. We need something like domestic content. I think this is a good approach. I am open to a better alternative. If somebody else can come in here and show us a way to keep these jobs in America, I am open to it.

If they don't have an answer, and offer only a lot of gripes, then it's time to pass domestic content. Thank you.

The CHAIRMAN. Don sets the stage very well, but he doesn't carry it to its ultimate conclusion. If we go down this road with cars, we are going right behind it, following with protectionism for other industries, such as steel, concrete, textiles. What we are going to say henceforth is that this country no longer has a capacity to compete in this world.

We cannot beat Hong Kong textiles with South Carolina textiles, and we cannot beat Swedish steel with Gary, IN, steel. We are going to pull the barriers up everyplace and give up on this and say we can't make it. Here is a great country, greater than the Soviet Union, greater than Japan—how is it that we can't go toe to toe with our capacity to produce? We have the best workers in the world.

We have better access to capital than any other country in the world, yet we sit here and cry and complain that we can't do it. What kind of leadership is that for this country?

Don cites England and Germany as examples. England is trying to close down 20 inefficient coal mines faced with a coal miner strike. England, a country bankrupt for the better part of two decades, cited as an example? Germany, unable to compete with anyplace in this world because of a faltering economic system? That's what we want to be like?

I will match the people of this country to go head to head with Japan for markets in Brazil or with Germany, competing for markets in Argentina or in any country. If we say we can't do it, don't let the Japanese cars in, don't let the German steel in, don't let anything else in, that is not a failure of capacity. It's a failure of will. It's a failure of leadership. It would be a shame if this country is willing to give in to that kind of argument.

I would like to place in the record a statement from Governor Branstad in opposition to the domestic content bill. He cannot be here today. I will place it first in the record, and then ask that other statements be placed in the record appropriately as we come to witnesses whose testimony are roughly akin, a resolution adopted by the Conference of Mayors opposing domestic content, letters from the Business Round Table and the National Association of Manufacturers opposing domestic content, a letter on behalf of Caterpillar Tractor Co., which has over 2,100 employees in Iowa and nearly 50,000 nationwide, strongly in opposition to S. 707. They estimate that last year 38 percent of their goods were exported, and they think they would lose 57,000 job if this passes. A letter from the International Apple Institute, representing nearly 10,000 people in the apple industry stating its opposition to S. 707. Also, I have two letters, one from the Chardon Rubber Co. of Ohio and the other from the Casonic Manufacturing Corp. of Tennessee, both of which make and supply parts to the auto industry, in opposition to this legislation. A statement from the Iowa National Farmers Organization, in favor of S. 707 will be inserted in the record.

Now, I might say that I have had a chance at least to read all of the statements which were sent in by last night. All of your statements will appear in the record in toto. You do not need to read them orally. Knowing how well prepared he is, I can assure you

Don has probably read the statements. You don't have to read them to us.

Last, totally unrelated to this hearing, let me compliment Des Moines on its magnificent Botanical Center. I was at a function there. It is one of the jewels I have seen around this country, and you should show it off to everybody.

Our first witness is Senator Roger Jepsen, Senior Senator from Iowa, a close colleague of mine whom I have worked with on many issues.

## STATEMENT OF HON. ROGER W. JEPSEN, U.S. SENATOR FROM IOWA

Senator **Jepsen**. Thank you, Senator. Welcome to Iowa, the heartland of America, Senator Riegle, Senator Packwood. I closed my eyes and thought I was in the Senate Chambers.

I would like to share just for a moment some good news with you this morning; 1 hour and 8 minutes ago the Labor Department announced the unemployment statistic for the month of June, which is 7.1 percent. This is a 4-percent drop, the lowest since 1980.

If we included the armed services, the unemployment in this country would be listed at 7 percent. The Labor Department was somewhat surprised at the sharp decrease. It didn't quite expect that much.

We had 460,000 new jobs created between the months of May and June, so I'm very pleased with the new unemployment trends, and I would point out that the January 1981 unemployment figure was 7.4, so currently we are .3 percent lower than 3 years ago in January 1981.

Mr. Chairman, I appreciate very much this opportunity to appear before your committee to reaffirm my opposition to domestic content legislation. It's a piece of irresponsible legislation that embodies a death wish for international trade and sounds the death knell for American and particularly Iowa agriculture.

We all can fully expect that few economic activities are as complex or controversial as international trade, given all the economic, political, military, and cultural self-interests and alliances in the world today. The volume and the extensiveness of international business transactions is truly phenomenal.

Business, whether some like to admit it or not, is a universal pursuit and the foundation of world relations. It's very interesting to note that when it comes to international trade, every country is a capitalist.

There are no countries, to the best of my knowledge, which extend altruistic economic doctrines into the international trade marketplace. If fact, if there is a country that practices each according to his needs, it is the United States. This is best exemplified by its international food donation programs.

Now, few would argue that international trade can be actively described as each entity pursuing its self-interests, yet that is also the most fundamental definition of capitalism. The consequence of international trade capitalism is trade competition.

While certainly, and unfortunately, not the perfect, pure or free variety, world markets are tremendously competitive today. Immediately following World War II, the United States was economically, politically and militarily unchallengeable.

True to its heritage, the United States began immediately to lend a helping hand to restore the world's economic balance. This was done through the Marshall plan, the Bretton Woods agreement, which was a monetary alliance formed to facilitate international trade, and its essential support of the United Nations, the World Bank, International Monetary Fund, GATT, [the General Agreement on Tariffs and Trade].

Today virtually every country in the world participates and benefits in the international exchange of goods and services. All countries are certainly anxious, and more and more are demonstrating a capability to expand their share of world production and foreign sales.

Perhaps nowhere is this more true than in the case of agricultural production and trade, areas of particular import to Iowa.

Contrary to the expectations of many, following the Great Depression and World War II, the world's countries became increasingly interdependent.

During the last 20 years the value of internationally traded goods climbed more than fifteen-fold from roughly $120 billion to over $2 trillion.

The global economy on the aggregate has become substantially well-integrated through trade. As a result, individual countries have become increasingly dependent on trade for their economic well-being.

The prospect of economic gain has bridged many political, social, and cultural gaps between nations, positively contributing to world stability and growth.

Mr. Chairman, the United States has led the way. Over the last 15 years the openness of the U.S. economy has approximately tripled, as the share that imports and exports make up of our total gross national product has increased from 4 percent to 15 percent.

Every bit as important as trade in linking national economies together has been the emergence of a highly integrated international capital market which facilitates global credit and investment opportunities.

The development of the world's economy in terms of its size, scope, complexity, and influence in spite of international tensions is certainly one of mankind's greatest accomplishments. We know that the development of trade interdependencies has turned foes into friends and enemies into allies.

Now, there are those who, Mr. Chairman, wish to turn the clock back by enacting trade policies to shield specific industries of our economy from international competitive forces.

These advocates of protectionist domestic content requirements would have us believe we are playing hardball with our foreign competition, being macho traders. In fact, it's just the opposite.

Unfortunately, the protective shield behind which these industries will hide is composed of the jobs and profits of other industries.

The cost of domestic content will be borne first and foremost by the American farmer. The costs could be in the millions of dollars in out-of-pocket income for our Iowa farmers. It would lead to the loss of thousands of jobs for agri-related businesses.

And I might add, by the way, Japan recently lifted the tax on hay balers, thereby opening up a market along with doubling the imports of red meat.

Domestic content advocates contend that Japan is bluffing and that they have no alternative but to continue to buy corn and soybeans and other products from the United States. I disagree. The facts of U.S. history does not bear that out.

I recall similar "We've got them where we want them" utterances being made during the early days of the Carter-Mondale Russian grain embargo. That's all the domestic content is: another trade embargo. All we do is shoot ourselves in the foot when that happens.

Wharton Econometrics, a large and highly respected consulting firm, recently performed a detailed analysis, Mr. Chairman, of the economic consequences of automobile domestic content legislation.

A key finding of this analysis was that local content laws would lead to sharply higher auto prices in the U.S. market. Auto prices would rise by more than 10 percent, costing the American consumer $18 billion a year.

Total employment in the United States would be reduced. By 1991 only 58,000 jobs would be gained in the auto sector, while 423,000 jobs would be lost in the rest of the U.S. economy.

On balance, the American consumer would be worse off with the local content legislation than without it because the U.S. economy would suffer slower growth, lower income, higher unemployment and more rapid inflation. In addition, the American public will be held hostage to future auto worker wage demands.

Now, the United States-Japanese trade dispute would rumble through the international economy, causing losses in export sales and declines in the output. The domino effect of protectionism would eventually result in the loss of over 3.6 million jobs in developed countries, 2 million to the U.S. economy alone.

Mr. Chairman, one can expect the Japanese to fully practice the principle of an eye for an eye. Wharton estimates that the local content requirement would result in over $30 billion in lost auto sales in the United States between 1986 and 1991, or an average of $5 billion of lower sales per year.

The value of U.S. agriculture exports to Japan last year amounted to $5.9 billion, almost half of which was corn and soybeans, a comparability which will not go unnoticed by the Japanese, I assure you.

Now we hear of a Brookings Institution study which found that our trade policy of voluntary quotas on Japanese car exports to the United States cost American consumers $4.3 billion last year because of price increases in the United States and Japanese cars.

Mr. Chairman, this amounts to about $100,000 a year for each of the 46,200 auto workers' jobs that it is supposedly protecting. This protectionism actually yielded an $8 billion increase in Japanese auto maker profits over the 4 years the quotas were in effect.

But what is the best response to those countries, including Japan, who tilt the trade table to their own advantage by imposing their own industry protectionist measures?

Closing ourselves up in an iron box of trade barriers will stunt, if not retard, the growth of our economic system, much to the interest and benefit of our competitors.

Taking our ball and going home will not end the game, Mr. Chairman. All we succeed in doing is foregoing the opportunity to score.

The most effective way to combat foreign protectionism is with productivity, as you alluded in your remarks, to offer the highest products at the lowest possible price, thus increasing the cost of maintaining these trade restrictions to those countries imposing them.

The cost of imported U.S. beef versus Japanese produced beef is an excellent example, and that trade barrier is coming down.

As Americans, I am sure that we are all confident that our system has a great deal to offer this world, but we can only maximize this contribution through free and fair international trade.

American agriculture, for example, will achieve its dominance in a free and fair international marketplace, and we must be both insistent and consistent in pursuing this goal.

I again welcome and thank you for coming to Iowa, and I hope your stay is enjoyable, and have a safe trip when you leave, wherever you are going, both Senators.

The CHAIRMAN. Roger, thank you. Your denial of the misperception that the Japanese have no alternative than to buy from the United States is certainly true. All you have to do in my home State of Oregon is to talk to the people in the wheat business.

We export most of our beef, but we are aware that other countries such as Australia, are anxious to expand their export markets and offer a ready alternative to American beef. You will recall the soybean situation about a decade ago where we reneged on some contracts with Japan because the price, all things considered, we thought it was a good contract, the price went up, we got mad, and Japan started taking their business to Brazil. If you think Brazil can't grow soybeans, talk to the producers in this country. We gave away the market.

I wish we were the only bread basket in the world and everybody had to buy from us, but that isn't the situation. Lots of countries can grow lots of things. They are perfectly willing to undercut us.

Senator JEPSEN. The irony of it is, too, Mr. Chairman, that United Auto Workers are going to be the ones who suffer along with everybody else if domestic content is enacted. Because of the exports that they must have to help build the profits and build employment in their business auto workers are the very ones who will be hurt the most with any type of retaliatory measure. I might add, the farmers, too, will suffer when exports go down, when profits go down, when the barriers are put up or, as you indicated, you don't have to put up with retaliatory measures. Japan can turn to Brazil and start importing the soybeans.

They don't have to make a scene of it. They can just do it. When that happens, it cuts down on the profits, and what does that do for the United Auto Workers and the farmers? It's a vicious circle.

Domestic content legislation is a knock-out blow to farmers.

Senator **Riegle**. Thank you. Can I have the microphone back? I want to go right to the point that you just made, that really starts to break open, I think, the false argument that I have just heard.

You mentioned about Brazil supplying soybeans to Japan. Did you know that Brazil has a domestic content law? They have a domestic content law, and Japan has adjusted to it. Japan hasn't stopped buying agriculture products from Brazil.

As you pointed out yourselves, it hasn't affected it at all. In fact, they are quite desirous of buying products from Brazil because it doesn't have anything to do with domestic content.

I don't think that was the right example to select. I think the reason that Japan is buying agricultural products from the United States is because we have top quality, as you know.

I think that very few people in the world can approach the quality of the agricultural output of this country, and the stability of supply. I mean, we are there year after year.

There are other countries that may think they want to get into the agriculture business and be able to produce it for a time, although I must tell you in the case of Brazil, their foreign debt problem is so severe that they may find they are not able to maintain their current agricultural production because they are dependent upon credit from world credit sources. They are having trouble getting the money.

The reason that Japan is buying the agriculture goods that they buy from the United States is not to do us any favor. It's because we are very efficient producers. The producers here in Iowa do a terrific job in terms of quality, dependability and price, productivity. That's the reason we are selling to Japan.

Now, I will say this to you, there is a big difference between whether or not you have a worker, an industrial worker who is building cars in Japan or an industrial worker that is building cars here in the United States in terms of how many agricultural products from Iowa that worker, and that worker's family is going to end up consuming in a year.

As I track through your argument, you are, in effect, saying that the Iowa farmers are just as well off if it's the worker over in Japan that has the job rather than the worker in the United States. I think that's nonsense.

Why aren't the agriculture interests in my State and your State better off if we have more people working in the United States building cars instead of having those jobs disappearing and going to Japan?

Senator **Jepsen**. Senator Riegle, I represent the State of Iowa, Dubuque, not Detroit; Des Moines, not Detroit; Denison, not Detroit. We have two Senators from Detroit. That's enough. Two Senators from Michigan, that's enough.

The fact is we are not going to trade off with the multimillion dollars of bonuses paid in industry at $21 an hour plus benefits paid and put the Government in the position of choosing winners and losers.

I don't know how anyone can conceivably—you say your State is second in agriculture, how you can conceivably think or let alone vote for legislation like this. It's a death knell for agriculture.

Senator **Riegle**. Why do your farmers in Iowa in this poll hold the other opinion? You are the minority on this according to a poll.

Senator **Jepsen**. Senator, may I suggest there are polls and there are polls and there are polls. The only ones that count are in November of this year. Polls can be any kind you want.

Getting back to domestic content, I would suggest that we have a displacement. Where you say it creates jobs for auto workers, we talked about 53,000 jobs created over a few years period, 423,000 jobs are lost elsewhere. What about those folks?

What about the extra money for every piece that a consumer buys. It's a double-edged sword, and it cuts both ways. It cuts the farmers and consumers. It is opposed by some 40 farm organizations in the State of Iowa. Every major farm organization in the State of Iowa is opposed to it.

It's not a matter of my opinion. It's a matter of people knowing what is happening.

Senator **Riegle**. I want to continue for a minute here. I want to just say to you that I have a responsibility to represent more than just my State, as do you. That's one of the reasons I'm in Iowa today.

I mean, if I were just representing my State, presumably I would be in my State, but I am here in your State because I am very much concerned about what happens in all the States. I think all Senators have a national obligation to factor all of the things together.

The concern I have is this: As I look at this problem, it seems to me today that farmers in this country are in trouble, too. These are not terrific days for farmers in terms of what I am hearing and what I am reading.

Senator **Jepsen**. I agree.

Senator **Riegle**. Even the Secretary of Agriculture is growing broke under his own policies. That's how bad it is. When I pick up the newspaper and I see that the Secretary of Agriculture is on the edge of chapter 11 because of the policies that he has designed aren't working sufficiently to let him make money, I think that has to tell us something, that something is wrong.

All the statistics show that farmers are in trouble. Well, the industrial base is also in trouble. It turns out that the savings and loan institutions are in trouble too.

There are a lot of trouble spots in our society today, and they connect to one another. It's important to try to understand what the nature of the relationships are.

I want to say again, when we have got a trade deficit that is running at $120 billion a year we are facing critical damage to the economy. That is money hemorrhaging out of our country, coming right out of the worth and wealth of our country, out of all of our families, out of all of our States, out of all of our cities, and disappearing. This money is gone. It goes to these other countries. That impoverishment is driving up interest rates putting more pressure on farmers.

The only reason Japanese only have a 21 percent market share of cars in this country is we have a voluntary limit. We put a gun to the head of the Japanese, our Government did, and said we are not going to let you ship in more than 21 percent—the biggest share of any market in the world—but no more. But those limits expire next spring.

Trade Ambassador Brock has said publicly take them off. The industry is ready to compete. It is unfortunately not as ready to compete as I wish it were. We are competing against trade manipulation in industrial trade just as and you are dealing with in agriculture and a lot of other products.

It has been estimated that if the voluntary import limits come off next spring, the market share is going to go from 21 percent, probably in a period of about 12 months, to probably about 40 percent.

These Japanese imports are cheaper, they have market acceptance, they have distribution outlets all across this country. They can easily sell 40 percent as 21 percent. Track that through to what it is going to do to the national deficit in this country. If Japanese car level goes to 40 percent, the deficit which is already at a dangerously high level to will increase by another $70 billion. It will go from $200 billion to roughly $270 billion.

My question to you and my question to anybody is what is that going to do to interest rates? What is that going to do to the cost of farm credit and the availability of farm credit?

I don't think we can take another $70 billion addition to the Federal deficit in the next 12 months or 2 years and expect that Iowa farmers or Michigan farmers or anybody else is going to be able to survive. Do you feel they can? Aren't you worried about that?

Senator **Jepsen**. Senator, one of the things we agree on here this morning, one of the things we must do that is very important is bring interest rates down for farmers.

We should also agree that we ought to bring exports up. That has to do with jobs and profits. Farmers and agriculture have had some tough times. We have been fried out, dried out, washed out, and I do represent Iowa. I want to tell you, I am not interested in dealing a knockout blow to people and farmers who are already on their knees economically by supporting or letting a domestic content bill even see the light of day.

Senator **Riegle**. If I may say one more thing, we do not restrict competition. What the bill does say is that foreign producers, if they want to sell a large volume of cars in the United States, have to set up their factories here and build those cars here. They can build them the way they want, price them the way they want, design them the way they want, and if they can get the entire market share based on head-on competition, they can do so.

The difference is that the money and the jobs stay in this country. To me, that's the essence of competition. We are inviting them in.

Senator **Jepsen**. The facts for themselves dictate that. Gain 53,000, lose 423,000, not a very good batting average.

The **Chairman**. Senator, thank you. Next we will hear from Senator Grassley, a pleasure to work with you very closely. I want to congratulate him on a legislative victory he achieved recently with regard to another matter, child support.

Chuck was a principal sponsor of an amendment to allow Federal income tax money to be withheld from errant spouses who do not pay child support payments. Chuck had to win over the objections of Senator Dole. He won and it is going to become part of the law.

## STATEMENT OF HON. CHARLES E. GRASSLEY, U.S. SENATOR FROM IOWA

Senator **Grassley**. Thank you, Senator Packwood. I appreciate that very much. Thank you, Senator Riegle, both of you, for coming to Iowa. I am happy to be with you. I want to say that I am not going to read my statement. I am going to submit it. I don't think there has been a copy submitted yet, so you probably haven't had a chance to study it.

I don't expect you to note what I was going to say, but I want to say that for a long period of time, I have been studying this issue. I have been holding in abeyance any sort of public pronouncement of my position on domestic content bill, and so today, for the first time, I am ready to say publicly that I will not support domestic content legislation.

It was not a difficult decision considering the arguments in support of it, but it was difficult from the standpoint of timing because I, too, have been frustrated over the tough way in which we have found negotiations with all countries, not just the Japanese.

I have been frustrated over increasing market share of agricultural exports that the Europeans have been gaining on us, also, though, I have come to the conclusion from a historical perspective that protectionism is not the way of the future.

Protectionism is going to hurt America more than it helps them. Negotiations and not retaliation must be the route we take. We suffered too long the results of the depression that were brought on because of protectionism, not only in this country but also all over the world.

The hope for unemployment not only in America but around the world is directly attributable to a growing, expanding economy, not a shrinking economy, and protectionism, practiced by a few nations or by many nations, I think, leads to a shrinking economy, so the hope not only for unemployed people in America but unemployed people all over the world is the expansion of world markets, the expansion of trade, and having the dynamics of a free market system determining the distribution of goods and services.

Now, I know it's going to be tough getting to that point. We have other nations that are trying to try America, but I think in the recent 3 years since this country has—for the first time—developed a hard-nosed approach to negotiations, we are making progress.

We are making progress because there has been a change of attitude in Washington. We are seeing progress with the Japanese. We are seeing progress with the Europeans as their threats to put tax on corn and soybean meal is being met head-on by our Government.

We can compete. We must compete. We will make progress economically within our country as well as the entire world as trade expands, not as it shrinks.

I come to you as a Senator from the State of Iowa, a State where 40 percent of our grain is exported. I come here representing the people of my State with full consideration to the fact that free trade benefits our entire country, but particularly our country's economy and the people thereof benefited as we maintain a healthy agriculture.

I don't know how agriculture is going to be maintained unless there is a growing worldwide market. A healthy agriculture is not only going to mean more food for more people around the world and more money in the pockets of farmers, but it's going to mean a better quality product, a more sure supply of that product at a cheaper price for American consumers, the working men and women of America, all the people of America as agriculture maintains its steady trends of increased productivity.

That cannot happen, that will not happen, without the ability to export. The alternative is more of a regimented agriculture in which decisions will be made by the politicians and the bureaucrats in Washington, as opposed to the efficiency of the management decisions by the individual family farmer in this country.

I have the same great faith in our economy, solving the problems of some of the industries that have not expanded as they should have in recent years because in just the last 18 months, we have 6 million new jobs, not just 6 million jobs, but 6 million people employed that are working in jobs that never existed before.

That's the dynamics of the free market system, the system that both of you people on the panel have expressed your faith in. Now is not the time to lose faith in that system.

Now is the time to not sit back and accept the status quo, that things are just automatically going to be fair in the world of trade, but that the lever against unfair trade is not going to come from domestic content legislation or most legislation of a permanent nature that will be passed but will come from negotiations, hard-nosed negotiations, such negotiations that this administration and our country is now, after two or three decades of a soft approach, has set itself upon, one in which I think we are seeing good results and one in which I think domestic content legislation may set us back from. There has got to be negotiations, not retaliation.

With that, Mr. Chairman, I submit this statement. The statement deals with nothing with which I just said, so I would appreciate it if you would look at the rationale for my present position, and hopefully I have contributed something to it.

The CHAIRMAN. Chuck, I would say there is seldom a debate that you don't contribute something to. Chuck is one of the most thoughtful Members of the Senate when he speaks. Everyone listens to Chuck.

Senator RIEGLE. First of all, I want to say that I enjoyed our service together on the Budget Committee, Senator Grassley. We had the occasion to sit across that table now for some number of years on budget matters.

I think on a number of issues we have been able to see issues the same way, so we can start out here with a dug-in history of not necessarily viewing all issues differently.

As a matter of fact, particularly on the issue of cutting out some of the waste in defense spending, I think you really performed a very important service on that issue. I want to just acknowledge it here.

Senator GRASSSLEY. Thank you very much. I appreciate it.

Senator **Riegle**. I know that hasn't been easy. I think sometimes when you buck the established powers in your own administration on a sensitive issue like that, it isn't necessarily a pleasant experience. I have done it myself. I know it isn't. You have been willing to push ahead on that.

I think that has been an important piece of work. I want to acknowledge it here today at the outset.

Senator **Grassley**. As a member of the Budget Committee, you have been helpful to me in getting from the bowels of democracy and budget people many people I felt were necessary participants on the subject of waste in the Pentagon, Franklin Spinney is one, Ernest Fitzgerald is another one.

Without the help of my colleagues on the Budget Committee, I wouldn't be able to have those people brought forth for public testimony. I appreciate that help as well.

Senator **Riegle**. Thank you. I want to cover a couple of things here. I listened to your statement with care. I want to share with you a couple of thoughts.

You have heard the discussion we had earlier this morning. General Motors, as you may know, is our largest industrial company in the United States. It is an enormous company in terms of size. General Motors is so big today that it is the single largest user of IBM equipment of any user, just to give you an idea of the magnitude of our industrial base. That is, of course, only one company in the industry.

Having said that, General Motors' work force is shrinking steadily. As a matter of fact, today the McDonalds hamburger corporation has more employees than General Motors. This has a very significant long-term meaning to the country that we have to consider.

When I say we, I don't just mean people from Michigan. I mean all of us as Americans, whether we are from California or Texas or Iowa or Maine or Michigan or wherever because there is a very important transition taking place in the economy.

About 10 days ago a front-page story, a major story in the Wall Street Journal, focused on what was called the shrinking middle class in the United States. And if you take and measure the people that live in an income range from, say, $15,000 to $25,000 or $30,000 a year you will see that the percentage of our society in that group is shrinking. It's getting smaller.

In fact, we are losing the historic middle class that I think has been very important to the way our country has developed.

As a matter of fact, we are in the process right now of spending billions of dollars in Central America, hundreds of billions of dollars in El Salvador to try to create a middle class so that democracy will have a chance to take over at the same time our middle class is shrinking in this country.

While you see a rise in the jobs at the McDonalds hamburger company at the minimum wage of $3.35 an hour there is a loss of jobs at the middle-class wage scales. Those jobs are the ones that allow families to send their kids to college, to buy a place, especially in the face of higher interest rates, to be able to have a car, to be able to provide some security for old age in addition to Social Security. We need to have those middle-class jobs and that middle-class income. Those are the jobs that are disappearing. That is the reason that this issue of domestic content is so important for us to address as a nation. We must decide whether we want to keep those jobs producing that level of value-added product, high priced goods, farm equipment, computers, airplanes, cars and trucks, or whether we are willing to let them go overseas.

I asked a question of Senator Jepsen, and he really didn't answer it. We can have an industrial worker working in the United States building cars that are going to be sold in the United States and used by our people, or we can have that same industrial worker being Japanese and living there and spending his income in that society. Which is better for Iowa?

Look at it from the point of view of the farm economy—take the farm economy in Michigan. If we have a worker in the United States earning $18,000 $20,000 $22,000 a year and spending that income in this country, paying taxes to the Government, helping to bring down the deficit, spending the money for their food needs week in and week out, that is going to be much better in the end for an Iowa farmer than to send that money to Japan to employ a Japanese worker that would spend a fraction of that amount.

In your mind, aren't we better off having that work done by our people than having it shipped overseas?

Senator **Grassley**. Before I answer your question, if I accepted the premise of your statement, I naturally would have to agree with what you said, but I can't accept the premise of your statement which is based on the middle class and the shrinking of the service industry.

The service industry, its growth or the industry itself, there is nothing new about it. What we classify as service industry today, particularly if it's a fast food chain, which might be an example you are thinking of, is just an extension of what has been going on in American society since about World War II time, when people gradually eliminated doing work in the household, and very gradually over a long period of time decided that they would rather pay for somebody else doing that business.

And whether it's from the rural communities and farms or whether it's from the big cities of this country, so much that it used to be done in the home, in the way of just preparation of daily needs, it is now being done outside the home, and that is the free market system, and the free choice that people make that decision.

That's on one end of your premise of your statement. On the other hand, people in this country decided, as I decided 2 or 3 years ago, that I don't need to buy a new car every 2 or 3 years, that it might last a 4th year or a 5th year. That's a decision that individual customers or consumers make.

So then my answer to your question comes because I can't agree with you, letting those same consumer choices, those same forces in the free marketplace that make the decisions on people not doing things in their home and paying for those to be done or consumers not buying a car every 3 years like they used to in the late 1950's, 1960's and early 1970's, then the marketplace makes a decision of what the people want to pay for a particular automobile.

You say to me, wouldn't we be better off—wouldn't the Iowa farmer be better off if the car was produced in this country and the worker had more and they could buy more American agricultural products? I can ask the question right back to you.

If American cars weren't made $1,000 cheaper as some foreign imports that people by choice might want to buy, then instead of spending the $1,000 on cars, couldn't that $1,000 be used to buy higher priced food, the steaks instead of the hamburgers, and benefit the American farmer to the same extent?

I think the answer to that is yes, but the best answer is that the consumer makes the choice.

Senator **Riegle**. I might just say to you, if we are just talking about one car on the margin, whether Chuck Grassley buys one car every 3 years or 4 years, whether you buy an American-built car or Toyota——

Senator **Grassley**. I have a 1978 Oldsmobile and a 1977 Chevette.

Senator **Riegle**. You have got the right——

Senator **Grassley**. And a 1972 three-quarter-ton Chevy pickup that I haul 21 hogs to market with, two loads, not one.

Senator **Riegle**. What happens, however, if you multiply up from one buyer to all the buyers in the country, you get up to the point where we are today where our trade deficits get to be $120 billion, that's an awful lot of money leaving the country.

Now what if it turns out you didn't buy the foreign cars. You bought the American cars. The money you spent stayed in this country, and it is still circulating. It is ending up in the pockets of people in this room and on the street and so forth. That's what makes our system strong.

If you take $120 billion a year and ship it overseas, it's like a form of foreign aid. It starts to have an effect.

I want to emphasize what the size of this deficit means. In terms of the middle class, what we are finding is that more and more jobs are being created at the low end of the income scale.

It's a lot different if a person is earning $3.35 an hour flipping hamburgers; and those are the job we are ending up with. Japan has manipulated the pattern of trade and the trade laws so they are ending up with the better jobs at the higher income levels. Their living standard goes up and our living standard goes down.

I will say to you, if you have one parent working at McDonald's earning $3.35 an hour, or let's say you have both the mother and father working at $3.35 an hour, minimum wage with today's cost of living, they wouldn't be able to afford two cars, the cost of housing or the cost of utility bills. They all couldn't keep up with the cost of living. Is there going to be a chance somewhere along the line for that family to send their kid to college, to get advanced training? With college getting more and more expensive, more and more families are finding they can't afford to do that.

As a result, if we look down the line, and that's what I think we have to do here, we are seeing a kind of impoverishment taking place with more and more people slipping out of the middle class and slipping down the ladder.

This is what the Wall Street Journal article featured. I would urge you to take a look at it. It seems to me, what we have to do, what we have to figure out, is how do we keep more of this money in the country and keep it there.

We are not telling the Japanese producers how to build the cars. If they are more efficient and can build the cars for $1,000 less because of their manufacturing techniques, because their workers do calisthenics before work, fine and dandy.

They can set it up anywhere they want to in this country, have their own manufacturing process and so on. But what they have to do is use our people, our parts, fashioned the way they want, in order to keep the money flowing through our system. I think it's a reasonable approach.

I want to finish with one other thing. I talked yesterday with a man who is responsible for a major manufacturing operation, a major manufacturing company. This is really important and I would urge you to think about this as you leave here today. I would ask you to do this friend to friend.

He was visiting an automobile factory in Korea. Korea is becoming a brand new competitor in addition to Japan and they have certain advantages that enable them to produce cars less expensively than they can in this country.

He went in. In one area of the assembly plant they had women working on a concrete floor, on their hands and knees working on an assembly board that goes into automobiles.

He walked into the plant, and I tell you this is word for word the way he described it to me yesterday. I assume some of you in this audience should be familiar with it and we all should as American people.

He went into this plant and the plant was very cold. In fact, it was so cold he had to leave his topcoat on as he was going through this automobile plant in Korea. He noticed that the women did not have coats on. They could not keep coats on because what they had to do required too much movement for that.

They were dressed in normal, everyday wear, but the temperature was so cold in there that he had to keep his coat on, and he couldn't get over how cold the building was. He asked the manager of the plant, "At what point do they turn the heat on?" And the plant manager said, "Well, we turn the heat on when it gets to be 42 degrees."

He said, "Well, why do you turn the heat on at 42 degrees?" He says, "When it gets down to 42 degrees, the oil will not go through the machines rapidly, so that the machines malfunction," so they turn the heat on when it gets to 42 degrees because they have to have the heat on in order for the machines to run properly.

The presumption is that if the temperature was 35 degrees for the machines, they would let it drop to 35 without a concern for the workers, but the workers, as I say, all women in this instance, were on a concrete floor.

He said, "Why don't you give them a rubber pad while they are down here working on this thing?" He said, "Well, we don't feel they need the rubber pad." He said, "Have you ever asked them?" He said, "No, we don't talk to the workers. It's understood that the workers come in and do the job, and we are not to talk to them and they don't talk to us, so there isn't that type of feedback."

He said, "How much do you pay these workers?" These women working 8-hour days and longer under those conditions, working just as fast as they could work, were being paid less than a $1 an hour.

What we want to understand is if we want cars built that way, we can have them. Yes, we are going to pay $1,000 less for them because that's how the cost savings are being produced with that kind of really human exploitation.

I think that's what you have to call it. That's what is going on here. Some people might say, well, I'm not comfortable with that. Other people might say that's the free market system.

If they are willing to do that, fine. If that displaces workers in our society, they can find something else to do, work in McDonald's, cast around, find odd jobs, whatever they can manage to come up with.

There is another side to it. That is what will happen to the country if we allow our industrial base to disappear, comprising as it does as much of the economic strength of our Nation and the middle class of our Nation, and the hundreds and billions of dollars produced in terms of the steel, the aluminum, rubber. First of all we need them if we are ever going to mobilize in wartime. But even beyond that what happens to the Nation if we allow all of this business to move offshore, and it is moving off very rapidly. In fact, in the case of autos if we didn't have the voluntary limitations, it would move off faster.

If we are going to allow all of these cars made in Japan and Korea, I don't see how we are going to produce the equivalent amount of national wealth or have the jobs of high enough value added where you have a living standard where people will ever have a chance to own a home, have three cars and one truck as you do and a farm and truck as you do.

That's the dimension of this problem. We can all stick our head in the sand about it. A lot of people want to. The problem is the trend lines are all running the wrong way. If you can't give us an answer for the $120 billion trade deficit or the $200 billion fiscal deficit, which worries you as much as me, or the answer for interest rates 13½ percent what are we supposed to do? In your own paper today one of the banks has decided to kick up the interest rate, farmers are already in trouble because of the credit crunch coming off these high interest rates. I don't think it's enough to simply say, "Well, I don't like your answer, Senator Riegle. I don't like the idea of having the Japanese companies come into the United States and producing here." At least my approach deals with the problem.

I don't address this just to you but anybody else. If somebody else that is walking in here says I have a different solution, here is what my solution will do and so forth and so on I am willing to look at it.

If somebody can give me a better answer I am open to it. What I am not open to is no answer. I think no answer is damaging this country.

Even if you and I manage to squeeze down the defense bill from $1 trillion in 5 years to maybe $950 billion in 5 years, we will not have solved the deficit problem.

If we are not producing enough at the worker level in this country, small business, manufacturing, farming, retail, everything else, we are not throwing off the wealth and creating the wealth in sufficient amounts to pay that bill, this country is not going to be able to survive. I mean, it's just that serious.

That's what we saw with Continental Illinois the other day: a bail out because we are so far against our limits we can't manage any more. I think we had better start facing our problems and not just sidestep them.

Senator **Grassley**. You are as much a student of history as I am. I know you have degrees from college, and you had to study a lot of history. I would only ask you to look at the historical perspective, particularly of the last 100 years, whether it be 208 years history of our country, and go see adjustments that have been accommodated before.

Before you relegate a whole new service industry in America, and one that I said has been developing over a long period of time, not just the last 10 years to a position of—by inference maybe always being a low income group or always maybe in some people's terms to be economically enslaved to some big gigantic corporation, don't forget the other part of our vibrant economy.

We only talked basically about the forces of the corporations and the forces of government, but the forces of the free trade union movement, and we don't do much justice to the Phillip Murrays of the thirties who were just trying to get 50 cents an hour for auto workers because they saw that position for their workers.

The automobile workers in America become some of the best paid, if not the best paid, industrial workers in the world. Why? Because of the free trade union movements and the right of association.

For whatever there might be today in the service industries, with the dynamics of our free market system, those people are going to be making progress and are making progress as low paid other segments of our economy have made progress historically, and to not accept adjustments in our economy, to not accept the free forces and particularly free trade negotiation and maintain hope for the future, you know, it just doesn't show the proper appreciation of our history.

Senator **Riegle**. Chuck, I agree with some of the points you are making, but the problem is in automobiles in the world market that every other nation has established import limitations, including Japan. They are either quotas or domestic content or some kind of import restruction, every other nation.

We are the only Nation left with as much freedom of access to our market. No other nation accords us that same equal access to their markets. I guess the question that we have to carry away from here is if the whole rest of the world, including Japan, is going to play it one way to their benefit, can we ignore that and assume somehow we are going to be able to maintain our economic strength in trade in the world?

Senator **Grassley**. Japan doesn't control it as by the fact it has adjusted to its once being the leading ship building nation in the world and losing competitively to Korea, making a decision to keep that dominance, but to move into something where they can be more competitive.

You see, the same way, you have to look at it from the other standpoint. Again, what we sell in the world market, not just as Iowans but anything that you can say we sell, we see retaliation, for instance, when we embargo soybeans to the Japanese in 1972 or 1974.

Eventually they put their capital down in Brazil, and we permanently lost the market.

Senator RIEGLE. That was a mistake. You and I agree on that.

Senator GRASSLEY. We have got to realize that we have learned from mistakes in the past, and we have got to learn again or continue to learn.

Senator RIEGLE. I will just say what I thought was your veiled advice to the service employee that is flipping the hamburgers down at McDonald's, making the minimum wage, that maybe a union movement organized over a period of time will help them get a higher living standard, I think that may be right.

Senator GRASSLEY. It's going to happen.

Senator RIEGLE. The problem is that somebody has to be able to pay the higher prices. That means the prices of hamburgers at McDonald's will go up. That means somebody somewhere else in society better be having a job that has enough value added where they are earning a decent wage. If they are going to pay more for a McDonald's hamburger, they have to have the income to do it. That's the problem.

The CHAIRMAN. Chuck, thank you very much. I might announce that it is my intention to go right through lunch. We will not recess. Don and I will both restrain ourselves. I think we will finish up in reasonable time.

[The statement follows:]

### STATEMENT OF HON. CHARLES E. GRASSLEY, U.S. SENATOR FROM IOWA

Mr. Chairman, I want to welcome you to Iowa, and to express my deep gratitude to you for holding this timely hearing on domestic content legislation.

The domestic content bill now before the U.S. Senate may benefit the U.S. automobile industry temporarily, but could have disastrous consequences for the Nation's economy as a whole. Fifteen national farm organizations have said the legislation, "Could be a major blow to our 42 billion dollar agricultural export market." The Congressional Budget Office estimates that by 1990, 107,000 jobs—38,000 direct auto jobs and 69,000 in auto-related industries—would be created, while some 173,000 jobs would be eliminated because of the restrictions on non-auto exports, for a net loss of 66,000 jobs. On top of this, the Commerce Department and the Department of Transportation estimate auto prices would increase by 10 percent.

Mr. Chairman, S. 707 is an inadequate and misguided proposal which would not accomplish its objective, but would do serious damage to our consumers, our vital national interest, and our vitally-needed agricultural export market in Iowa. American agriculture is already suffering from last year's drought, this year's floods, and high interest rates and other costs which have forced many of our farmers into bankruptcies and foreclosures.

The General Agreement on Tariffs and Trade (GATT) specifically prohibits local content requirements and permits retaliation the European Community in particular is constantly searching for new arguments in their effort to limit U.S. exports of corn and soybean products into their market. Figuring that each dollar in farm income turns over several times, this legislation has the potential of removing one billion dollars from Iowa's economy according to the Iowa Corn Growers Association. John Baize of the American Soybean Association says, "Passage of such legislation would do more to destroy world trade than any action since the Smoot-Hawley Tariff Act."

By virtually any measure, the United States auto industry is in a remarkable recovery from the recession of 1980 to 1982. Total industry earnings for 1983 were 6.1

billion dollars, more than wiping out the prior cumulative three years' loss of 5.2 billion dollars. Profits for the industry are expected to grow an additional 64 percent in 1984 and reach a record 10 billion dollars. And executive compensation has not been neglected either. The chairman of General Motors, Roger Smith, received 1.5 million dollars. The chairman of Ford, Phillip Caldwell, received 7.3 million dollars in pay, bonus and stock options for leading a company that earned 1.87 billion dollars in 1983. Overall, General Motors paid 5,807 executives 181.7 million dollars in bonuses in 1983. While Ford paid 6,035 executives 1983 bonuses totaling 80.6 million dollars. All that aside, total average employment is up 13 percent from 1982 to 1983, with 100,000 production workers recalled during 1983, the majority of those now unemployed in the domestic industry have been the victims of automation and robotics, and not Japanese import competition.

The fabric of our international trade rules has been seriously damaged in the recent world-wide recession. Unfortunately, protectionism is not creeping—it is surging in important sectors such as autos, steel, textiles, and agriculture. The recent world recession, and the unprecedented decline in world trade, shows that the international economy remains fragile and vulnerable. It would be extremely unfortunate if protectionist legislation for autos would lead to a world-wide cartelization of the world auto industry, with a spill-over into other sectors, triggering a new round of trade wars.

Mr. Chairman, at this point in the record,[1] I would like to submit a copy of a list of organizations opposing domestic content, highlights of statements opposing S. 707, and finally a list of the top thirty States exporting agricultural products against whom retaliation will occur if S. 707 is enacted.

The lure of domestic content is an example of the political seductiveness of an ugly idea that benefits neither American industry, agriculture, or the consumer. In my estimation, sponsorship and support of this bill would be a grave diservice to almost everyone in the marketplace, and as such I urge its defeat.

Again, let me thank you for taking the time to come to Iowa to gather information on what is sure to turn out to be a very hotly-contested debate on a very sensitive subject. I hope you will feel free to come back and visit us again under less trying circumstances in the not to distant future.

The CHAIRMAN. Let's move on now to the first panel. On that panel are the Honorable Richard Goldberg, Deputy Under Secretary for International Affairs and Commodity Programs and the Honorable J. Paul McGrath, Assistant Attorney General from the Antitrust Division of the Department of Justice.

Again, gentlemen, your statements will be in the record. As a matter of Senatorial courtesy, we allowed the two Senators to speak for as long as they wished. The policy of the committee is to limit other witnesses' remarks to 5 minutes.

Mr. Goldberg, do you want to go first?

## STATEMENT OF RICHARD GOLDBERG, DEPUTY UNDERSECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE

Mr. GOLDBERG. Thank you, Senator, Mr. Chairman, Senator Riegle, I appreciate the opportunity to be here this morning in regard to S. 707, the domestic content legislation. I am particularly happy to be here in Iowa. I have been in Iowa looking at the flooded areas, the farmlands in the State, the severe damage.

I am going to summarize, Mr. Chairman, if it's all right, to save your time. I think that the name of the game and the issue in this particular legislation is whether or not we favor trade on behalf of the agricultural sector of this country and whether or not, in our view, the bill that is before you today is protectionism at its very worst.

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[1] The submissions have been retained in the committee files.

Generally speaking, there are a number of industries in this country that have asked for some sort of protectionism, and usually it's because of subsidizing or unfair competitiveness.

We don't see an unfair competitive situation in this particular instance. I would like to point out a story for you which has already been mentioned by some of the others that have testified previously, what happened to the United States when we have employed various degrees of protectionism.

For example, with the People's Republic of China last year, we estimate that we lost about $800 million in business because of the tensions over imported textiles.

As we mentioned earlier, in the case of the Japanese, which seems to be the focal point of the hearing, back in the seventies, as you well know, the embargo of soybeans to the Japanese caused trade problems. I would like to expand on that a little bit to illustrate what happened.

The Japanese shifted purchases to Brazil. Up until that time the Brazilians were not a substantial or predominant soybean exporter in the world. Today they are our chief competitor in soybeans. That's of particular interest to the State of Iowa.

Second, I would like to point out what has happened to us in terms of 1980, the famous embargo of January 4, 1980, that has taken this country, Senator, 4 long years, No. 1, to lift the embargo, and, No. 2, to engage and negotiate a new long-term agreement with the Soviets.

I would like to announce at this point we have passed the 12 million ton mark for sales to the U.S.S.R. this marketing year. We have exports to the Soviet Union which are double what they were last year, and it has taken us 4 long years to get this far.

I believe that the issue here is not the question of whether automobile workers get too much money or too little money or whether farmers get too much money or too little money; it's a question of applying protection to one segment of the industry at the expense of the other.

My definition of "expense of the other" is the loss of opportunity in sales for American agriculture in export trade if we go further with this and other types of protectionist legislation.

There are, in my judgment, four necessary ingredients to insure trade The United States being the largest trading nation in the world and the nation that comes, by far, the closest to being a free trader, must be concerned with these four important ingredients:

No. 1, we need to be competitive. I think at the moment competition in the agricultural sector is probably one of the more important problems.

No. 2, as Senator Riegle points out, access is terribly important. The Japanese do not allow as much access for American goods and services as they might. I might enlarge a little bit on that, Senator.

Recently we have renegotiated a new agreement with the Japanese with respect to beef and citrus. While it did not go as far as we would have preferred, it was a joint step forward and a 100 percent improvement over the previously negotiated agreement.

Second, you must have the ability to pay foreign customers. You restrict foreign trade by customers who need to buy U.S. products, and you will restrict their ability ever to be able to pay.

If you put out protectionist legislation, in my judgment, you can write off the Third World, the developing nations of this world today. They need dollars so that they can buy U.S. agricultural products and other exported merchandise.

Farmers of today, because of the rapid progress through the early seventies and on into the 1980's, utilize one-third of their harvested cropland for export.

That's an industry that we need to protect by allowing trade. If you eliminate the demand for 20 to 25 percent of farm products in this Nation, you can also eliminate a good percentage of the farmers in this Nation because we do not need the amount of agricultural production presently on the farm in order to merely provide for our domestic consumption.

I might add that although Senator Riegle points out the $120 billion, I believe, trade deficit——

Senator RIEGLE. That's only the current rate—some predictions put it closer to 130.

Mr. GOLDBERG. I would like to say on behalf of agriculture, that it enjoys a trade surplus. If you pass legislation of this type or restrict agricultural trade, you can add to the $130 billion, not reduce it. I might also add that factor to those are some of the things that I would like to say.

In our judgment, Mr. Chairman, Senator Riegle, this bill does violate the GATT. I won't go into the technicalities, but we would expect retaliation from the Japanese and other trading partners around the world.

I think that protectionism sends the wrong signals, not only to Japan but other nations as well. I might add that the Japanese happen to be our number one largest agricultural purchasers. They have been since 1963, year in and year out.

The Japanese have led other U.S. customers in wheat, corn, soybeans, cotton and meat purchases. Japan is particularly important to Iowa because Iowa is a major producer of corn, soybeans and meat.

I would like to read one short statement from my own prepared remarks, Senator, if I may.

Senator RIEGLE. If I may, I would ask you to abbreviate, if I can, Mr. Secretary.

Mr. GOLDBERG. All it goes into, it shows the Iowa figures for the billions of dollars of exports involved. I think that that is the important part of it. Thank you very much. I will be glad to answer any questions.

### STATEMENT OF RICHARD W. GOLDBERG, DEPUTY UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE

Mr. Chairman and members of the Committee, I appreciate the opportunity to discuss with you S. 707, the "Fair Practices in Automotive Products Act." The bill would restrict imports of automobiles into the United States to those containing a minimum level of U.S.-made parts.

I appreciate, also, that you have brought this hearing to an important farm state. You are giving farmers and their representatives a better chance to participate in your deliberations on this proposed legislation, which has profound implications for the future of U.S. trade in agricultural as well as industrial products.

However noble its purpose and whatever its merits, this is a protectionist bill. It would disrupt trade and it would invite retaliation by foreign governments against U.S. exports, including agricultural exports.

At an accelerating pace, exports have become basic to the continued growth and economic health of American agriculture. The proportions of total U.S. farm production shipped overseas and of the acres devoted to production for exports have more than doubled during the past two decades.

Foreign markets today provide an outlet for the harvest of one-third of our cropland. This year more than half our wheat, soybeans and cotton production will move overseas, along with substantial amounts of most other crops. Almost one quarter of the income U.S. farmers earn from farming comes from the export market.

So legislation that would threaten the flow of trade is a matter of serious concern to the farming community, as it is to this Administration.

It somewhat ironic that consideration of this trade-restrictive bill comes in the 50th anniversary year of the passage of the Trade Agreements Act of 1934.

That legislation marked a dramatic change in American trade policy. It was a move away from the severely restrictive Smoot-Hawley Act, which had been the 1930 response to the onset of hard times—a response that helped lengthen and deepen the Great Depression.

Based on the philosophy of the Trade Agreements Act of 1934, the United States has followed a policy of liberal trade for 50 years—not perfectly, certainly, but the tradition has been heavily on the side of freer as opposed to more restrictive trade.

These policies have worked. The United States is the world's economic leader and its leading trader. As protectionism grows, each country produces a little more of what it makes less efficiently and the welfare of the citizens is diminished both there and abroad. As freer trade has developed, each country is allowed to produce what it produces most efficiently and the world is much better off economically.

U.S. agriculture today exports more than any other agricultural system in the world and our agricultural trade surplus since 1980 has averaged well over $20 billion a year. But despite its demonstrated success, the policy of liberal trade is now coming under the heaviest pressure since probably the Smoot-Hawley days, pressure that is represented for us here today by S. 707.

And this is occurring at the very time that robust U.S. economic expansion is leading the world out of the global recession that led to demands for this type of legislation.

You need not be a student of economic summits to have made the comparison that the media made in London last month between the still-lagging economies of the highly-protectionist European Community and the dramatic growth under way in the United States.

There is something in that comparison for everyone to think about, whether farmers, business or labor, as we consider whether to move away from market orientation toward government control of trade.

Philosophy aside, we in the Department of Agriculture believe that the passage of S. 707 would have some very direct any very negative consequences for U.S. agriculture.

In our view, the domestic content rule and the attendant quota features of this bill would be a violation of U.S. commitments under the General Agreement on Tariffs and Trade (GATT).

Even if the bill could be defended as consistent with emergency provision in the GATT, those provisions would not preclude retaliation by a foreign government that found its trade affected by U.S. restrictions.

Withdrawal or impairment of concessions by any GATT signatory for any reason gives an affected GATT member the right to suspend substantially equivalent concessions enjoyed by the offending member.

The United States, for example, is considering ways to retaliate should the European Community carry out its expressed intent to restrict imports of corn gluten feed.

To enact S. 707 is to invite a similar response from U.S. trading partners who would be adversely affected, and it is of no small significance here that the weight of the domestic content bill would fail almost exclusively on Japan, U.S. agriculture's largest single customer.

Japan has been our largest agricultural market since 1963. Year-in, year-out, Japan is at or near the top as a buyer of American wheat, corn, soybeans, cotton and meat.

It became U.S. agriculture's first billion-dollar market 14 years ago, and this fiscal year we expect to sell Japan almost $7 billion worth of U.S. farm products, an increase of $1 billion over last fiscal year.

Japan last year bought $1.6 billion worth of U.S. corn, more than one-fourth of all corn export sales. Our sales of soybeans to Japan totaled $1.1 billion, aroung one-fifth of total soybean exports. In the case of beef, we sold over $250 million worth to Japan, over two-thirds of our total export sales.

Import numbers like that are of interest to all U.S. farmers, but they are of particular interest in Iowa where corn, soybeans and meat are leading earners of export revenue.

We estimate that Iowa's share of total U.S. farm exports of $34.8 billion last fiscal year was $2.8 billion, the second highest of any state. And of this total, half was corn, valued at $1.4 billion; 40 percent or two-fifths was soybeans worth $1.1 billion, and Iowa meat sales were valued at $100 million.

This kind of business globally and in Japan did not just happen. It was built up over the years by producers and traders in Iowa and the other states. It represents a cooperative effort by the private sector and government—years of work to gain and maintain access to markets and sell in those markets against sometimes strongly entrenched indigenous interests, and this has certainly been true in Japan.

True, the Japanese market still is not wide open to us, nor is it as open as we would like it to be, but we have made progress and further gains are in store.

Liberalization is not easy for the Japanese Government. Each action to liberalize has been taken in the face of heavy opposition from the agricultural sector, especially livestock and citrus, but positive actions have been taken.

In April, the Japanese agreed to increase beef and citrus import quotas by substantial amounts over the next four years—to just about double for beef—and they are prepared to discuss further liberalization of those important U.S. products when the current accord expires.

They also agreed to liberalize import quotas immediately on a variety of processed food products—molasses, non-citrus juices, and several others. Next year, certain pork product imports will be liberalized, with liberalization of grapefruit juice to follow in 1986.

In addition to those measures to reform their quota system, the Japanese plan to lower tariffs on 32 agricultural products next April.

Under S. 707, our response to these substantial trade concessions on the part of the Japanese would be to shut out or drastically curtail access to our market for Japanese automobiles.

Such a response could only strengthen the argument of agricultural protectionists in Japan that further measures to open the market would do nothing to improve trade or trade relations between the United States and Japan.

At the same time, passage of the bill would undermine the U.S. stance in the world trading community as a champion of liberal trade. This is especially important to agriculture, where we are fighting to overcome a proliferation of non-tariff trade barriers and distortions beyond anything faced by industry.

The value of our agricultural exports is turning up again after two years of decline. Led by the United States, the global economy appears headed for renewed growth, and with it, increased demand for agricultural products.

The markets, old and new, are out there, and, as I suggested, we need those markets if American agriculture is to be healthy and grow. In our view, passage of S. 707 would jeopardize this growth.

That concludes my statement, Mr. Chairman. I will be glad to respond to questions.

Senator RIEGLE. Thank you. I think we will let the Attorney General go.

## STATEMENT OF J. PAUL McGRATH, ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION, DEPARTMENT OF JUSTICE

Mr. McGRATH. Thank you very much, Mr. Chairman. I very much appreciate the opportunity to be here today. I would like to say I think all of us appreciate the opportunity that you and Senator Riegle have given many people to testify on the critical issues raised by the bill sponsored by Senator Riegle because they are issues that cut across our whole economy today.

It's really in that spirit I would like to discuss these issues. It seems to me the first issue raised by this legislation is a purely economic one, and that is, do the prospective costs of this legislation balance? Are they greater than the expected benefits?

Second, is there some other way, some better way to deal with the problems that we clearly have today because of the trade deficit?

On the first issue, I think it is absolutely clear that the costs of the enactment of this legislation vastly outweigh the benefits, if there are any benefits that would flow from the legislation.

First, it is clear that this legislation is designed to and would cut off significant imports of automobiles from foreign manufacturers. That is what the preamble of the bill says it is designed to do, and it is well designed to do that. It clearly would have that result.

Second, it clearly would increase the price of automobiles in the United States, perhaps by $450 a car, perhaps by as much as $4 to $5 billion a year for two reasons.

One, it would deprive the U.S. consumer of foreign-manufactured cars, and, two, it would increase the price of domestic vehicles because it would force U.S. manufacturers to use U.S. parts regardless of cost.

Third, there has been some talk this morning that the result of this bill would be to encourage Japanese manufacturers to set up plants here.

I believe, Mr. Chairman, the record of this hearing so far indicates that there is no hope of that. The Japanese manufacturers who do business here have indicated that if this legislation passes, they may well move out of this country.

Some have suggested that the Japanese manufacturers who are not doing business here are going to come in droves when they are told by this legislation that they can't use their own carburetors and radiators and other parts.

I suggest there is little support for that. It may happen, but I would suggest it is wishful thinking.

In addition to all those costs that would be imposed on the American consumers, there is great reason to believe that because of the GATT violation that would be caused by this bill, a flatout violation of this country's trading obligations, Japan would bring a GATT proceeding, as they did last year on motorcycles, that this would lead to increased protectionism, and that that would cause the loss of jobs across this country.

Every single serious study that has been done has shown that there will be a net loss of jobs occasioned by this legislation, that there will be a net increase of costs to the American consumer.

The result of that is pure and simple, a subsidy to four large companies situated in the State of Michigan, a subsidy to some manufacturing employees.

[The statement follows:]

## STATEMENT OF J. PAUL MCGRATH, ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION, DEPARTMENT OF JUSTICE

Mr. Chairman and members of the committee, I am pleased to have this opportunity to provide the views of the Department of Justice on domestic content legislation for the U.S. automobile and automotive parts industries. The bill under consideration is S. 707, the "Fair Practices in Automotive Products Act." This bill would require that, beginning with model year 1985, a certain percentage of the value of automobiles sold in the U.S. be produced or added in the U.S.

The bill contains complex provisions for defining and calculating domestic content requirements. Essentially, the bill, which would be phased in over three years, would establish each automobile manufacturer's domestic content percentage as ten percent for each 100,000 vehicles sold in the United States, up to a maximum of 90 percent for U.S. sales of 900,000 or more vehicles. Based on current sales levels, S. 707 would impose a 90 percent requirement on the "Big Three" domestic auto firms. The two leading Japanese auto firms selling in the United States, Nissan and Toyota, would have domestic content ratios of about 73 percent and 67 percent, respectively.[1] The bill would create an extensive regulatory regime, and a range of penalties would be established to ensure compliance with the bill.

The Justice Department and the administration oppose domestic content legislation in the strongest possible terms. If enacted, such legislation would seriously hurt—not help—our economy. The legislation would seriously impair the world trading system and the export opportunities for American farmers and manufacturers. As a consequence, American jobs would be lost. In addition, American consumers would be made worse off as their selection of automobiles declines and as the price of automobiles increases. And most ironically, the bill promises little, if any benefit, for the American automobile industry. S. 707, then, has much to condemn, and very little to commend, it.

One of the most serious problems with domestic content legislation is the adverse effect it would have on the world trading system and this country's ability to export its products. This country has long supported a free and open international trading system because such a system ensures world prosperity and because its economic benefits to the United States have been essential to our domestic economic health. U.S. trade (exports and imports of goods and services) totalled 21 percent of the GNP in 1983—nearly double the 1972 level of 12 percent. Because the United States economy is so dependent on trade, we have regularly reaffirmed our commitment to the world trading system and our opposition to protectionism—most recently at the London Summit meetings. Domestic content legislation, however, would violate our free trade principles, as well as the existing international obligations of the United States under the General Agreement on Tariffs and Trade (GATT) and other international agreements.[2]

The enactment of S. 707 would not only serve to sanction protectionist actions by other countries but would also likely cause some of our major trading partners to retaliate against U.S. exports. Exports of U.S. goods and services totalled nearly $350 billion in 1982. Exports accounted for 8 percent of the GNP in 1980, an increase from 4 percent in 1970. Between 1977 and 1981, 80 percent of the new jobs created in the manufacturing sector were accounted for by products made for export.[3] Retaliation would be most effective, of course, if directed against those sectors of our economy where exports are most significant: aircraft, petrochemicals, computers, advanced electronics, pulp and paper goods, farm machinery and, in particular, exports of U.S. farm product.

While we export about 20 percent of total goods manufactured in the United States, we export more than 33 percent of our farm products.[4] In 1982-83, agricultural exports accounted for approximately $38 billion, or roughly 11 percent, of total exports. Export trade accounts for over one million jobs in the agricultural sector and for 65% of the wheat, 55% of the soybeans and 35% of the coarse grains (corn, barley and sorghum) sold by U.S. farmers.[5] Our agricultural sector then is particularly vulnerable to retaliation.

The threat of retaliation against agricultural exports is even more ominous because Japan and the European Community (EC), who are the two largest customers for United States agricultural exports, are the countries that would be most adversely affected by domestic content legislation and thus the most likely to retaliate.

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[1] As you know, Japanese firms' sales levels are currently limited at least in part by the export restraint imposed by the Government of Japan.

[2] Among other things, the GATT explicitly prohibits "internal quantitative regulations" that a specified proportion of any product be supplied from domestic sources. For example, late last year, in a case filed by the United States, a GATT panel declared illegal Canada's Foreign Investment Review Act ("FIRA"), which required foreign investors in Canada to purchase a certain percentage of their supplies from Canadian manufacturers. Report of the General Agreement on Tariffs and Trade Dispute Panel on the Canadian Foreign Investment Review Act, 19 BNA Export Weekly 767 (1983). Thus, we would expect a similar finding against the U.S. if this legislation were passed.

[3] 130 Cong. Rec. S5781 (daily ed. May 16, 1984) (remarks of Senator Chafee).

[4] Fair Practices in Automotive Products Act of 1983: Hearing on H.R. 1234 Before the Subcommittee on Trade of the House Committee on Ways and Means, 98th Cong., 1st Sess. 186 (Letter to Hon. Sam Gibbons, Chairman, Subcommittee on Trade of the House Committee on Ways and Means from the American Farm Bureau, dated Sept. 15, 1983).

[5] 130 Cong. Rec. S5784 (daily ed. May 16, 1984) (remarks of Senator Abdnor).

In 1982, Japan and the EC purchased approximately $6.0 billion and $7.8 billion of agricultural products from the U.S., respectively, or a total of nearly 40 percent of U.S. agricultural exports. Thus, domestic content legislation threatens serious damage to U.S. agricultural producers because it targets our largest customers for agricultural exports.

As a result of the invevitable retaliation, domestic content legislation would likely reduce the total number of American jobs. Although the United Auto Workers claim the legislation will increase or preserve more than a million jobs,[6] the independent analyses of the legislation are much more pessimistic. For example, the Congressional Budget Office analyzed an earlier version of the present House counterpart to S. 707.[7] That study concluded that, if enacted, by 1990 domestic content legislation would create 38,000 auto sector jobs, but would result in 104,000 lost jobs in sectors that produce goods for export. This, of course, translates into a net loss to the economy of 66,000 jobs.

An interagency task force chaired by Commerce Secretary Baldrige reported to Congress in May 1983 that domestic content legislation would result in a net gain by 1987 of only 6,500 new jobs in the automobile industry because of offsetting job losses at ports, automobile dealerships and the U.S. facilities of foreign auto manufacturers.[8] Calculating the potential job losses in the export sector from retaliation by our trading partners, the task force concluded that at least 132,000 export-related manufacturing and agricultural jobs would be lost. The cost of the lost jobs is incalculable. The cost of the estimated 6,500 new jobs, taking the task force's modest estimate of only an average price increase of $450 per auto, would be about $740,000 for each new job, or a total cost to our economy of $4.8 billion in less than three years.[9]

In addition to its adverse effects on international trade and this country's exports, domestic content legislation would also harm the well being of American consumers. The practical effect of S. 707 would be to impose a long-term quota on most imported automobiles. There will be limits to which foreign firms can easily increase the domestic content of their automobiles. This limitation in turn would tend to limit the maximum number of automobiles that a particular firm could import into the United States because, as I explained earlier, S. 707 imposes domestic content percentages on the basis of a firm's annual sales of vehicles in the United States. A foreign firm may find that the increased U.S. sales that could be made by increasing the domestic content of its vehicles would not justify the expense of the requisite increase in domestic content. Such a result would seriously limit the opportunity for U.S. consumers to purchase the automobiles of their choice. It would also deprive consumers of low automobile prices that result from import competition. On the other hand, foreign firms attempting to increase the domestic content of their vehicles could face substantially increased costs, thus raising the prices of their automobiles. Either way, U.S. consumers would lose.

As noted above, the bill would impose 90 percent domestic content requirement on the "Big Three" domestic automakers. Those manufacturers, of course, import some cars made overseas and import portions of cars that are sold after final assembly in the United States. In addition, U.S. automakers are also attempting to engage in cooperative ventures with their foreign counterparts to improve efficiency and reduce costs. The bill would limit those opportunities regardless of the efficiencies or cost savings that would be available, to the detriment of consumers.

As against these overwhelming costs of enacting domestic content legislation, there would be few benefits. In fact, I believe that domestic content legislation would not be in the long-term best interest of the U.S. auto industry. Proponents of this legislation claim it is necessary to restrain competition from foreign-produced automobiles in order to maintain the domestic industry's profitability. While there might be some short-term benefits for the industry, I believe that the costs to the economy and to consumers, as well as to the efficiency of our domestic automobile industry, are too high a price to pay. We in the Department of Justice see the benefits of competition in our day-to-day enforcement of the antitrust laws. We also see the harm that comes from undue restrictions on competition—whether from secret price-fixing agreement or from government interference with free market forces such as the proposed domestic content legislation. Competition effectively ensures the efficient and productive allocation of our scarce resources. It drives firms to produce the best possible products at the lowest possible prices. Competition from foreign firms can, and ought to be allowed to, provide a needed spur to efficiency, innovation and investment by all members of an industry. Furthermore, the threat of entry by new importing firms, or of increased imports from firms already selling in the market, can be a significant check on the ability of U.S. firms to raise above competitive levels. Foreign producers who sell automobiles and parts in the United States therefore play an important role in providing the benefits of competition.

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[6] U.S. Auto Trade Problems: Hearings on H.R. 1234 Before the Subcommittee on Commerce, Transportation, and Tourism of the House Committee on Energy and Commerce, 98th Cong., 1st Sess. 170 (1983) (statement of Douglas A. Fraser).

[7] Fair Practices in Automotive Products Act (H.R. 5133): An Economic Assessment, Congressional Budget Office, Aug. 16, 1982, cited in H.R. Rep. No. 98-287, part 1, 98th Cong., 1st Sess. 34 (1983).

[8] Letter to Hon. John D. Dingell, Chairman, House Committee on Energy and Commerce from Hon. Malcolm Baldrige, dated May 13, 1983, reprinted in Id. at 51.

[9] Id. at 52.

By seriously restricting competition from foreign producers, the domestic content bill would not only raise U.S. auto prices significantly, it would also discourage rather than encourage innovation and efficiency that is necessary to increase productivity in the domestic industry. Indeed, at least one recent study has found that U.S. automakers were more aggressive in their efforts to become more efficient and innovative before the 1981 Japanese export restraint agreement was in place than after.[10] The study found that the automakers had made significant investments for new plant, equipment and retooling before the 1981 export restraint was in place but found little evidence to show that innovation and production improvement efforts have continued since then. Indeed, the study indicates that real investment expenditures have fallen by 30 percent since 1981.[11] Thus, without the pressure of significant foreign competition, the problems of the U.S. auto industry—be they work rules, wages and salaries, design, or management—will likely remain or even become worse. Moreover, the increasing inefficiency of our domestic industry, combined with the fact that the Big Three Automakers would be required to have 90 percent domestic content, should make it increasingly difficult for the United States to export automobiles partially manufactured in the United States.

Even in the short-term, the bill will increase the regulatory costs that the domestic automobile industry must bear. S. 707 would create a new and burdensome regulatory scheme to implement and enforce its terms. Before S. 707 could be implemented, the Department of Transportation ("DOT") would have to undertake a formal rulemaking process to establish explicit definitions, procedures and forms to be followed by industry and government to collect, analyze and certify domestic/foreign content data. In a recent hearing on this matter before this Committee, the Department of Transportation ("DOT") estimated the rulemaking alone would cost the government $8 million; the costs of implementing the law are estimated at $20-25 million per year for the government for the first few years and about $10 million annually afterwards.[12]

In addition, each manufacturer would have to assemble data on all of its transactions with all of its suppliers and certify the annual domestic content of the cars it sells. A large manufacturer of automobiles typically deals with numerous suppliers each year and has many separate transactions with each one. Parts supplier (whether manufacturer, importer or both) would have to share the expense of providing the manufacturer with accurate domestic content data. The cost to the industry to comply with these reporting and certification requirements is estimated by DOT at $50 to $100 million annually.[13]

In addition, DOT would have to audit the submissions for correctness. DOT would likely have to conduct large-sample audits of purchase and import invoices at several levels of the supply chain to determine the accuracy of those submissions.[14] In addition, DOT would probably need to undertake further independent investigations, and perhaps examine customs records and firms' financial statements to ensure that asserted domestic content compliance was not being achieved by accounting manipulation or other methods. In short, S. 707 would needlessly expand the government's regulatory role.

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[10] The State of the U.S. Automobile Industry: Hearing Before the Subcommittee on International Trade of the Senate Committee on Finance, 98th Cong., 2nd Sess. (1984) (statement of Robert W. Crandall at 14) (June 27, 1984); to be published in the summer 1984 issue of The Brookings Review, Washington, D.C.

[11] Id. at 15.

[12] Fair Practices in Automotive Products Act: Hearings on S. 707 Before the Senate Committee on Commerce, Science and Transportation, 98th Cong., 2nd Sess. 4 (May 16, 1984) (statement of Philip Haseltine).

[13] See note 6 supra, at p. 650 (letter to Hon. James J. Florio from Secretary of Transportation Elizabeth Hanford Dole, dated May 18, 1983).

[14] How complicated a determination that could prove to be is demonstrated by the following hypothetical example: U.S. manufacturer "X" installs a carburetor it bought from a U.S. supplier. A closer look at the "domestic" carburetor reveals, however, that the screws were made in Italy, the springs were fabricated in Mexico, the valves are from Germany and the gaskets were made in Korea. Furthermore, the casing was made in the U.S. but from an alloy imported from Japan, and the diaphragm assembly was purchased from a subcontractor who had them assembled in Hong Kong. It is not clear from the bill how each of these elements is to be treated in determining the carburetor's domestic content. What is clear is the tremendous burden and expense that would be imposed by such an endeavor.

In conclusion, Mr. Chairman, domestic content legislation is a very bad idea. It would disrupt the international trading system and likely would reduce the export opportunities for American agricultural and manufactured goods. It would also deprive the American automobile consumer of varied selection and low prices. And it would benefit the American automobile industry very little. Before answering your questions, I would like to add that while this Administration recognizes the benefits of international competition, we also recognize that such competition should be fair and conducted in accord with internationally agreed-upon trade disciplines. To the extent foreign governments unfairly subsidize imports of automobiles into the U.S. or foreign companies import automobiles at less than their fair value, such existing trade laws can and should be used to correct problems and ensure that the terms of trade are fair. The Commerce Department has been vigorously acting on, and meeting deadlines in, the record number of unfair trade practice cases filed during this Administration.[15] The U.S. International Trade Commission likewise has been vigilant in acting on petitions filed with it. The domestic content bill does not distinguish between fair and unfair import competition, however. Rather, it is a blunt instrument that would impose quantitative restraints on imported automobiles whether traded fairly or unfairly. For all those reasons, the Department of Justice and the Administration strongly oppose enactment of S. 707 and recommend it not be enacted.

Mr. Chairman, that concludes my prepared remarks. I would be happy to respond to any questions you may have.

The CHAIRMAN. I agree with you that every study except that done by the UAW, shows a loss of jobs and an increase in car prices. One of the studies was done for the Japanese Auto Manufacturers Association, so the critics of that dismiss it, even though it was done by a perfectly reputable company, Wharton Econometrics. I am encouraged, however, that virtually all of these studies conclude what you and I conclude.

It is frustrating, though, to realize that somehow, someway, someplace, you can get a study that will show almost anything.

Mr. MCGRATH. You can, Senator. That is true. I would like to point out that the CBO study itself comes out the way I suggested. As far as I see, the balance of the evidence indicates this.

Is it called for? Maybe 3 years ago there was a lot of reason to believe it was. The automobile industry was in a terrible slump. The whole economy was in a terrible slump. This isn't true today.

Last year the domestic automobile companies alone had $6 billion in profits. This morning the Wall Street Journal pointed out that the current estimate is that there will be $11 billion of profit this year.

The CHAIRMAN. 2.1 million cars produced, as I recall, was the best quarter for production.

Senator RIEGLE. It varies. Normally this quarter would be the best.

Mr. MCGRATH. The second quarter, I thought, Senator.

The CHAIRMAN. It looks like the auto industry may produce 7½ or 8 million cars, this year, which will make it the second or third best year in history.

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[15] The Commerce Department shares enforcement responsibility with the U.S. International Trade Commission for statutes against foreign government subsidized (countervailing duty statute) and sales of imported products at less than fair market value (antidumping statute).

Senator **Riegle**. Bear in mind, we are down before the import invasion. Domestic companies, with the exception of General Motors, have not yet, even with today's high profits, not yet earned back the amount of money they lost in the 3-year period leading up to it.

They have gone into the net black. That does not offset the fact that the financial markets don't see it the way you see it. You may be right. The financial market may be wrong. If so, you can buy stocks very cheaply.

Mr. **McGrath**. Of course, I don't buy any stocks because of my conflicts of interest, and I couldn't do it anyway.

Senator **Riegle**. The point still maintains that professionals who look at these things—you say you are not in that, so that removes you one more level—but the people who are in it and who are taking the hardest kind of professional look, don't see it the way you see it. They see it exactly the opposite the way you see it.

They are betting their money. They are the top professionals. Their view is closer to accurate than yours.

Mr. **McGrath**. I disagree. The stocks of the companies have risen significantly over the past few years.

Senator **Riegle**. How about the price earning ratio: The price today versus the earning today. They are lower than they have ever been.

Mr. **McGrath**. The current uncertainties with the way legislation is going obviously has to have an effect on this. I would have to suggest overall that there are some other solutions to the problems.

I would suggest that the solution is not a single-minded subsidy—that is not called for. The solution is what this Administration has been doing: opening up markets evidenced by the dramatic successes in the negotiations between Bill Brock and the Japanese, the great successes with Korea, a country mentioned by Senator Riegle, which is exporting no automobiles to this country or virtually none.

Senator **Riegle**. They are about to.

Mr. **McGrath**. In view of the enormous increase in productivity in this country, I would like to say I regard this bill as a note of pessimism that is not called for. I would suggest that the reason we are having success in that respect is a whole package of economic and trade policies that this administration has been pursuing which has succeeded in digging us at least part of the way out of the structural mess we inherited from the last administration, and it is that broad-range solution that is the answer here.

I would respectfully urge, Mr. Chairman, that this committee not vote favorably on the bill S. 707.

The **Chairman**. You mentioned productivity, and Don has heard me speak about this. I finally bought a new car. I have two Buicks that were finally sufficiently unreliable, and my wife had to have something that could guarantee she could get out of the house. When I test drove two competing minivans, Chrysler's and Toyota's, I felt the Chrysler product was superior. We bought the Dodge van.

Toyota serves 27 States out of Oregon. There are 9,000 workers in Oregon directly and indirectly involved in the import of automobiles. All of the primary jobs are union jobs, either longshore, or work done off the shore by Teamsters.

Both of those unions, when we had hearings in Oregon, testified vehemently against S. 707. I could have justified buying a Toyota from that standpoint. I didn't, because I thought the Chrysler product was a superior product. We have had it a couple months and I like it.

Mr. McGRATH. I think the sad fact, Mr. Chairman, is that the bulk of the jobs that would be lost if this legislation would pass would be union jobs. It is not a union versus farmer issue. Union jobs would be lost.

I think that it's important that this committee has permitted this record to be filled out, to point out where the hurt is likely to come if this legislation passed. Obviously we are talking about the future.

All you can do is make the best judgment based on the record that this committee has put together. At least from what I have had a chance to review, the best judgment is that this bill will be very harmful.

Senator RIEGLE. Thank you, Mr. Chairman. First of all, I am going to place in the record a summary of the flaws of the various popular studies that I referred to and you mentioned, the one that was financed by the foreign importers as well as the CBO study.

The CHAIRMAN. CBO is the Congressional Budget Officee. We get in the habit of talking in acronyms.

Senator RIEGLE. Like both our witnesses and yourself, I spend a lot of time at the college level working for IBM in the world of finance, and I think I spent more time at it than I almost wish I had in business school and other places.

I have never seen a study as poorly structured as the CBO study. It is not a sound economic study. If you look at the premises, the premises of the study that was given us—this is the one is most often referred to—it starts on the premises the bill will not work, and instead of investing here, the domestic content requirements would mean that the foreign producers would not come in here. I think that's a myth.

You made that statement here. I will address that. It assumes there will be no increase in the import share, that it would stay at 25 percent. That shows absolute no connection to reality as to what will happen if the voluntary limits go off next year.

It assumes no increase in domestic outgo, when all the trend lines show the reverse of that. It still predicts a job gain, and no retaliation-type scenario.

It is so artificially constructed that, you know, it doesn't even begin to fit the problems. I don't want to dwell on that now. We will put that in the record.

You made another claim that is substantially in error. I want to correct the record on it. I would urge you to think about it as well. Honda has come into the United States. They didn't come in because of the domestic content law but because they saw a good business opportunity. They have done very well. They enjoy the relationship. They are expanding. That is one Japanese company.

You say it's only one. That is not the only one. Nissan has come in with a truck plant and it has worked very well. They are very gratified with the results. They have decided to move into the automobile business.

Toyota is going into a joint venture. They are coming in, but in a modified form. What we have seen is not that the foreign manufacturers somehow have a dread of coming out or don't think they can be successful when they are here, quite the contrary.

They have demonstrated they can be very successful and competitive. 30 other nations in the world have, domestic contract laws, and I might just say to this witness that Japan has not filed any GATT complaints against any of those. Did you know that?

Mr. McGrath. Can I respond to that?

Senator Riegle. If you can point out one time where Japan has filed a GATT complaint on cars on any of those 30 nations, I would like to hear it.

Mr. McGrath. I would like to point out who those 30 nations are.

Senator Riegle. You can point that out, but has there been a GATT complaint filed by Japan? Let me help you. There are none.

Mr. McGrath That is accurate. There are none, 29 of them are lesser developed countries.

Senator Riegle. I understand that. The rest of them have quotas. By the way, have there been any GATT complaints filed by Japan against any of the rest of the nations, which is the rest of the world that has quotas? The answer to that is also no. Japan has yet to file a GATT on autos and trucks against any nation, although every other nation in the world has either domestic content laws or quotas.

Mr. McGrath. That's true, but the only way Japan can retaliate under GATT is by getting permission to reduce imports from another nation on an arbitrary basis. They have shown they will do that on the basis of motorcycles when we apply protectionism against them.

There is no reason in the world to assume they won't do it in automobiles. These other situations aren't comparable.

Senator Riegle. I think they are entirely comparable and far more comparable, in fact, than to take motorcycles and compare than to cars. I think you are wrong on that point. Japan has been taking advantage of every nation that is stupid enough to let itself be taken advantage of.

Everybody else has awakened to that fact around the world. We were the last ones to do it because we weren't very smart on this point. We finally did it with voluntary import restraints. If those restraints come off, make no mistake about what is going to happen.

Japan is sitting there with the capacity to crank out 4 million cars. That exists today. If they have open access to this market, what prevents them from doing that? I think they will come in and make a larger share.

The Japanese companies have been able to be successful. To set that aside and draw the inference that in the case of domestic content requirement that none of the Japanese will come into this market, which is their biggest market in the whole world, that they are going to walk away from this market, that doesn't make sense.

Of course they will come into this market. That is exactly what will happen. They will have to come into the market. They will have to produce as Honda has done, as Nissan has done, and they will do it. There is no question about that in terms of what we have already seen.

Mr. McGRATH. There is a question. These companies came in under a situation where we have free trade.

Senator RIEGLE. What do you mean by free trade?

Mr. McGRATH. No domestic content legislation. If we pull the rug out from them now and say you can't import all those parts to run the plants, they have already told the committee they are going to pull out.

To suggest that that supports the proposition that others will come here I suggest is totally illogical.

Senator RIEGLE. Take it one more step. The Japanese trade surplus in automobiles and trucks this year in our country is about $20 billion. That's a lot of money.

Now, the weight of the argument that you have to sustain here is to say that they are going to walk away from that $20 billion net surplus item if, in fact, we go with domestic content.

I would argue—and maybe we can do it with economic models or anything we want to take—that Japan cannot afford to walk away from something that big. If the requirement is to come here and produce here I don't think there is any question they will do it; unless you can demonstrate where they will go and where they will get the wealth in the absence of that opportunity.

Mr. McGRATH. This bill would drive them away. The question then is whether it would be a net economic benefit to them to invest the enormous amount of money they would have to invest in our country to buy a pig in a poke. If we change our trade rules by enacting this bill, they will invest their money in other industries.

That's exactly what they did in the case of shipbuilding, in the case of aluminum, when they found that they could not compete.

Senator RIEGLE. Where are they going to go and get $20 billion worth of business?

Mr. McGRATH. They will invest more money in computers, the fifth generation of computers as they are now doing; biotechnology, as they are now doing. Every time we put up another wall to those industries, all we will do is cost the American taxpayers more money and our economy more.

Senator RIEGLE. This is not putting up a wall. It is taking down the wall. If you start with the wrong premises, you are going to get the wrong conclusion. The biggest market they have is here and they can produce here. They demonstrated with other Japanese companies that they can do it.

They have product loyalty of this country that has been well established, and so forth. The thing that bothers me, I might say strangely so, about this administration is that you folks are so worried about what the Japanese will think. You don't see it that way, but it comes through.

Anybody that reads this record that is impartial will see it time and time again. The trade deficit that is at that level right this minute, you don't have any answers for it. We have a $200 billion fiscal deficit, and you don't have an answer for it.

We have a near collapse with a $7½-billion bail out and you don't have any answers to them.

Mr. McGRATH. Would you like to listen to them?

Senator RIEGLE. No; I have heard them.

Mr. McGRATH. I have an answer if you would like to listen to them.

The CHAIRMAN. To begin with, Don, I don't think you can lay all the blame for running this country solely on the President. Congress does have some hand.

Senator RIEGLE. I agree, but these fellows have an affirmative obligation——

The CHAIRMAN. For us to sit here and say it is President Reagan's fault or Jimmy Carter's fault is wrong.

Senator RIEGLE. There is a joint responsibility. You are representing the administration. I think you have an obligation to present an answer. I don't hear any answer.

Mr. McGRATH. Let me just say this. There was some talk about being too kindly to the Japanese. I didn't see the last administration internationalize the yen. That happened last month.

Senator RIEGLE. Is it internationalized today? It is not internationalized today.

The CHAIRMAN. Please give him an uninterrupted minute, Don and then you can come back.

Mr. McGRATH. They have agreed to internationalize the yen.

Senator RIEGLE. When?

Mr. McGRATH. They have agreed to do that this year, and to open their markets, both of which will permit the yen to swing into the international market.

Senator RIEGLE. Did you put the time table in the record?

Mr. McGRATH. It is already in the record.

Senator RIEGLE. Not today.

Mr. McGRATH. They have agreed to open up the markets through the lifting of tariffs and quotas, for many agricultural products, their communications market, their satellite market, and they have agreed to end the tobacco monopoly.

They have agreed to every one of those things during this administration from pressure from the Vice President, from Ambassador Brock, and from Secretary Baldridge. I would suggest it is that kind of affirmative thing rather than hiding behind protectionism that is going to get this country out of the mess.

Senator RIEGLE. I have to tell you, I have looked at these things, and I think we have made no progress. Put your professional reputation on the line and put into the record what your best estimate or what this administration's best estimate is of what our trade deficit will be with Japan and the following year with Japan.

I think you ought to be honest enough to tell people in this room we don't envision going to a trade balance with Japan in any kind of timeframe.

Mr. McGRATH. I would be happy to supply for the record the best estimates we have, estimates obviously, as to the trade deficit over the next couple of years.

I am not so silly as to suggest we are going to wipe them out. The important thing is that on the affirmative side, what we need to do is improve our domestic markets, create conditions that will improve foreign markets because the biggest cause of the deficit is not the weakness of the U.S. economy; it's the weakness of the lesser developed countries' economies that can't take our goods.

It's the strength of the U.S. dollar caused by the basic strength of our economy which has created an imbalance between the dollar and other currency.

Senator **RIEGLE**. Is it the weakness of the Japanese economy?

Mr. **McGRATH**. Clearly not the weakness of the Japanese economy.

The **CHAIRMAN**. Fellows, I think we may have reached the end. We have no more questions. Did you just come from Berlin, Mr. McGrath.

Mr. **McGRATH**. I did, Mr. Chairman.

The **CHAIRMAN**. You are amazingly alert.

Mr. **McGRATH**. I feel like hell, as a practical matter.

The **CHAIRMAN**. Well, you don't show it. We will now take a 5-minute recess.

[The following information was subsequently received for the record:]

U.S. DEPARTMENT OF JUSTICE,
ANTITRUST DIVISION,
*Washington, DC, August 15, 1984.*

Hon. ROBERT PACKWOOD,
*Chairman, Committee on Commerce, Science and Transportation, U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: As you will recall, the Committee on Commerce, Science and Transportation held a field hearing on S. 707, the "Fair Practices in Automotive Products Act," in Des Moines, Iowa on July 6, 1984. I appeared before the Committee and testified on S. 707.

In the course of my dialogue with your colleague on the Committee, Senator Riegle, I offered to obtain for the record estimates of future U.S. trade deficits with Japan. The Department of Justice, of course, has no independent economic forecasting responsibility or capability. However, the Department of Commerce advises us that, in their estimate, the 1984 merchandise trade deficit with Japan will be approximately $25.0 billion. Because there are so many domestic and international economic, financial and political factors that affect the components of even the bilateral trade deficit, a specific estimate is not meaningful very far in advance. Thus, figures for 1985 and beyond are not available, although we expect some increase over the 1984 figure.

I trust that this information will be useful to the Committee in filling out the record of the July 6 hearing.

Sincerely,

J. PAUL McGRATH,
*Assistant Attorney General,*
*Antitrust Division.*

[Recess]

The **CHAIRMAN**. The hearing will come back to order, please. We will now take a panel consisting of Mr. Dean Kleckner, the president of the Iowa Farm Bureau Federation; Keith Hora, board of directors of the National Corn Growers Association; Dick Gallagher, the president of the Iowa Soybean Association; Gerald Pepper, the executive director of the Iowa Institute of Cooperation; and Mr. David Ostendorf, coalition representative of the Iowa Farm Unity Coalition.

Gentlemen, do you have any objection to going in the order you are on the witness list? Let's take Mr. Kleckner first.

## STATEMENT OF DEAN KLECKNER, PRESIDENT, IOWA FARM BUREAU FEDERATION

Mr. KLECKNER. Thank you, Mr. Chairman. I am president of the Iowa Farm Bureau Federation and a member of the American Farm Bureau Federation board of directors and member of the executive committee. I am also a corn and hog farmer from northern Iowa.

I am representing the American Farm Bureau Federation here today. At our annual convention in January this year we adopted the following statement regarding protectionist legislation:

> Farm Bureau will oppose protectionist legislation, such as domestic content legislation, which if enacted by the U.S. Congress and signed by the President, would result in retaliation against U.S. farm exports or a request for compensation under established trading rules.

Senator Packwood, we did express this opposition to S. 707 to you as chairman of the committee and all the Senators in a letter from Bob Delano. I won't read all that letter. It is in my testimony.

The Chairman. That letter is part of the testimony you sent last March, as I recall.

Mr. KLECKNER. We view this bill as very protectionist and the most protectionist of any legislation under consideration by the U.S. Congress. It does nothing to address the basic issue of how to increase U.S. productivity and the output per hour of nonfarm workers.

We also believe that this legislation, this bill, would be viewed by our major trading partners as outright protectionist and would invite retaliation from them, and we pointed out what already has been pointed out earlier today by previous witnesses, that Japan and EEC are major buyers of our farm commodities, $16 to $18 billion a year, and also are major exporters of automobiles to our country.

We believe that the U.S. auto industry can meet foreign competition without enacting protective legislation, which we think could result in greater economic loss to the ag sector than would be gained in the industrial sector. That was in Bob Delano's letter to you.

Today auto manufacturers report that economic recovery in the industry has indeed been impressive. One of the main reasons I think it has been impressive is that competition prior to restrictions spurred them to improve their competitive position. They had to adopt those steps in response to competition prior to quotas.

They now have record profits, record bonuses, and high wages. We feel they should not be protected by the U.S. Government to the detriment of consumers, including farmers. I believe sincerely that domestic content is a short-sighted boost to one segment of the economy at the expense of the general good of the entire U.S. economy.

We point out in here that the Center for the Study of American Business at Washington University estimates that consumers pay about $1,000 more for all autos purchased in the U.S. because of the limit of the Japanese shipments.

Since we farmers buy autos and trucks and other equipment, our agriculture production costs have been increased as a result of this protection. It comes at a time, as you both pointed out, that high interest rates and low weather-related production levels are squeezing some farmers into very difficult cash flow situations. That is an understatement.

Under the existing voluntary restraint agreement [VRA], the Japanese have no incentive to reduce the price of their trucks and cars they export to our market. With the fixed quantity that they can market here, the incentive is for them to send more models loaded with extras at marked up prices to our market.

This has reduced the competitive pressure on domestic manufacturers who now have an average car price tag of $10,500.

There is no incentive for our auto industry to make economic adjustments similar to those being made in agriculture and other industries.

The current VRA arrangement that is achievable only with our government support has produced the record profits, record bonuses, and I believe, no doubt, requests for wage escalation in the auto and farm equipment industry in the next round of bargaining, which will be coming up shortly.

All this is going to be paid for by consumers, by their customers, which includes us farmers.

We fully agree with Ambassador Brock that the limit should be allowed to expire without renewal on April 1, 1985.

I now leave my prepared testimony, which I have paraphrased and ended at this point, to quote from a Brookings Institution study, and the Brooking Institution is not known as a bastion of conservatism. They said major Japanese automakers made more money from 4 years of limited sales here than the American producers the quotas were designed to help.

The Japanese increased their earnings by $2 billion per year because of the higher prices here they were able to charge for their cars, while the U.S. car manufacturers gained no more than $1.24 billion in extra sales that were fostered by the import quotas.

I appreciate the consideration of this by your committee.

[The statement follows:]

## STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

At our annual convention in January, 1984, Farm Bureau delegates representing over 3 million member families ratified the following statement regarding protectionist legislation:

"Farm Bureau will oppose protectionist legislation, such as domestic content legislation, which if enacted by the U.S. Congress and signed by the President, would result in retaliation against U.S. farm exports or a request for 'compensation' under established trading rules."

Farm Bureau expressed its concern and opposition to S. 707 to Senator Packwood, Chairman of this Committee, and to all other Senators in their letter of March 22, 1984.

Today, automobile manufacturers report that economic recovery in the U.S. automobile industry has indeed been impressive. Import competition prior to quota restrictions, no doubt, spurred many of the steps the domestic manufacturers have taken to improve their competitive position.

Record profits, record bonuses for executives and high wages in that industry should not be protected by the U.S. Government to the detriment of consumers, including farmers.

The Center for the Study of American Business at Washington University estimates that consumers must pay about $1000 more for all automobiles purchased in the United States because of the limit on Japanese shipments. Since U.S. farmers use equipment and trucks to produce and market their products, their production costs have been increased as a result of this protection. This comes at a time when high interest rates and production input costs are at levels that are squeezing some farmers into very difficult cash flow situations.

Under the existing Voluntary Restraint Agreement (VRA), the Japanese have no incentive to reduce the price of their trucks and cars exported to the U.S. market. With a fixed quantity that can be marketed in the United States, the incentive is to send more models loaded with extras at marked up prices to this market. This in turn, has reduced the competitive pressure on domestic manufacturers who now have an average car price tag of $10,500. There is no incentive for the auto industry to make economic adjustments similar to those being made in agriculture and other industries.

The current VRA arrangement, achievable only with U.S. Government support, has produced the record profits, record bonuses, and, no doubt, requests for wage escalation in the auto and farm equipment industries in the next round of bargaining. All of this will be paid for by the customers, including farmers who must have equipment and trucks to produce and market their products.

Farm Bureau fully agrees with Ambassador William Brock, U.S. Trade Representative, that the so-called Voluntary Restraint Agreement, which limits imports of automobiles and trucks from Japan, should be allowed to expire without renewal on April 1, 1985.

Mr. Chairman, Farm Bureau not only opposes S. 707, which could bring retaliation against our exports of agricultural commodities to Japan and the EEC, but we also believe Ambassador Brock is right in questioning continuance of the Voluntary Restraint Agreement. We urge the Administration to adopt the Ambassador's suggestion and end the VRA when it expires next April.

We will appreciate consideration of our views as this domestic content legislation is further discussed in this Committee and the Senate.

The CHAIRMAN. Thank you very much. Mr. Hora?

## STATEMENT OF KEITH HORA, MEMBER, BOARD OF DIRECTORS, NATIONAL CORN GROWERS ASSOCIATION

Mr. HORA. I am Keith Hora, corn farmer from Riverside, IA. I represent the National Corn Growers Association. I am a member also of its board of directors. We appreciate having this opportunity to express the views and position of the NCGA on proposed legislation called domestic automobile content or S. 707.

Our organization is strongly opposed to this and other trade legislation for many reasons, not the least of which is the specter of retaliatory moves.

In addition, our position is supported by not only numerous agricultural organizations and groups but also a broad list of companies and associations in the industry sector of the U.S. economy.

As you know, domestic content legislation passed the House by a narrow margin in 1983. There will be strong pressure from the bill's proponents in 1984. If such a vote comes, we are urging you to stand up and say no to this misguided proposal.

If enacted, its consequences would be far-reaching. Consumer choices would be narrowed as competition is severely limited. Wharton Econometric Forecasting Associates concluded that prices would jump 10 percent if the bill were enacted and cost the American consumers $18 billion a year.

American jobs would be lost. As you related to earlier today, the CBO office has estimated that by 1990, 104,000 jobs will be lost in the U.S.-export sector while only 38,000 auto jobs will be gained.

Also, billions of dollars of American exports, in agriculture, forest products, aerospace, electronics and other industries will be jeopardized. As a blatant violation of our international obligations, domestic content legislation will entitle other nations to retaliate against other U.S. goods and services sold abroad.

It is important to note that Japan would feel the immediate impact of such legislation. Japan is the number one customer for U.S. agriculture goods. During the year ending July 1, that ends next June 30, Japan is expected to import 515 million bushels of U.S. corn, 99.4 percent of its total corn imports.

While this market valued at $1.5 billion might not disappear immediately, it would certainly be threatened. The impact would be very similar to that of an embargo. Certainly we don't need to give Japan any further reason to develop further suppliers.

Also to be considered is the impact such legislation would have on other nations, notably the European economic community. How would we offer an effective solution when we require Volkswagens to be built in the United States?

This perception will be particularly critical as we get underway later this year.

We urge your opposition for 707, the content bill which would violate our international trading agreements and obligations and would threaten disruption of major agricultural and other U.S.-export markets.

Retaliatory actions and restrictions would almost certainly be triggered by passage of this bill and could in economic conflict, which would be devastating to hopes for resolving the serious economic problems facing the United States and its world trading partners.

In addition to its serious threat to vital U.S. agricultural markets, the bill has been appropriately labeled as the most profoundly anti-consumer bill in Congress.

If enacted, it would sharply accelerate already increasing costs to consumers. Also the strong prospect is that it could trigger a damaging trade war that would cost U.S. consumers additional billions of dollars as worldwide competition declines.

Furthermore, enactment of the bill would cost consumers, farmers and non-UAW workers far more in lost jobs and dollars than any possible benefits to automotive workers whose wage rates are far above those of almost all other U.S. workers.

I think it could also have a spillover effect into our agricultural equipment industry. Right now, in this State alone, 20 percent of its jobs depend on the production of agriculture machinery.

If this is enacted in the Iowa industry, how long will it be before it is required that we have domestic content for all agriculture equipment? I think most of the small tractors we now are buying are produced outside of this country.

I would say those attempts could strongly increase the costs of agricultural equipment in the future because, as a farmer, when I go down to buy a part for my tractor or combine, I realize what increased costs are as far as what a man's wages will do to the cost of a piece of farm equipment.

Realizing we are operating in a world market and we are trying to control inflation in this country, I think farmers right now are, and I would ask that all segments of the economy also try to bite the bullet.

U.S. farmers and agricultural exporters encourage you to seek a more rational solution to the serious unemployment and other problems facing the U.S. auto industry.

S. 707 is an inadequate and misguided proposal which would not accomplish its objective but instead would do serious damage to our vitally needed $40 billion agricultural export market, to all of us as consumers, and to our vital national interests.

I want to thank you for coming out here and hearing us today. Thank you for your time.

The CHAIRMAN. Thank you. Mr. Gallagher?

## STATEMENT OF DICK GALLAGHER, PRESIDENT, IOWA SOYBEAN ASSOCIATION

Mr. GALLAGHER. My name is Dick Gallagher, and I farm near Washington, IA. I am testifying today as president of the Iowa Soybean Association, a nonprofit, single commodity organization of 7,000 dues paying Iowa soybean farmers who have a history and tradition and success of the free-market enterprise.

Our association thanks Senator Packwood and his committee for giving us the opportunity to testify.

The Iowa Soybean Association strongly opposes domestic content bill S. 707. If enacted, this proposed legislation will severely cut the opportunity for profit of the soybean industry.

This week marks the official opening of the American Soybean Association's 11th overseas office, which is located in Caracus, Venezuela. Our first foreign office opened up in Japan over 25 years ago to develop markets for U.S. soybeans there. That approach worked, and today Japan is the largest importer of soybeans and soybean products.

It is ironic that in the same week our soybean producers have opened a new office, I find myself testifying against a bill that would defeat the efforts of worldwide market development projects being conducted in 76 countries by the American Soybean Association.

The American Soybean Association started in 1920 to show people and farmers how to grow, process, and use soybeans. These Iowa forefathers, who had the first national organization in Iowa, laid the foundation for 30,000 dues paying members in the United States throughout 26 States.

Iowa is the leading exporter of soybeans, and our product producers have made a lot of exports for half their income. We cannot afford the surge of protectionism that this bill would do.

We now market more soybeans outside the United States than we produced 15 years ago which means soybean farmers now export every other row they grow plus the end rows.

This legislation would be a blatant violation of our international trade obligations and invite other nations to retaliate against U.S. goods and services sold abroad, especially soybeans. We cannot afford the devastating effect this bill would have.

Our association is not opposed to Americans gaining jobs in the auto industry, but the net job gains should not come at the expense of farmers who depend on export industry for a living.

Again, if I could go back to the American Budget Office estimate, but that has already been covered. This legislation would also have a direct impact on the American consumer, not just the farmer.

Recent news reports have emphasized a resurgence of profits for the automakers resulting in a $6.5 million profit from that industry last year. Executive bonuses for General Motors were $262 million for General Motors and Ford.

We feel that car companies have demonstrated that they can compete with the Japanese automakers without legislation that is potentially detrimental to exports such as soybeans.

With the serious risks this legislation poses for the American farmers and other businesses who depend on expanding U.S. exports, a vote for domestic content simply cannot be justified in view of the enormous burden it places on the American farmer and consumers.

The Iowa Soybean Association is concerned, as are you, with the problems of unemployment in the auto industry, but elected officials must create and pass legislation that does not penalize one segment of the work force at the expense of the other.

We strongly urge you to vote against domestic content in any form, and we thank you on the part of the Iowa Soybean Association.

The **CHAIRMAN**. Thank you. Mr. Pepper?

## STATEMENT OF GERALD R. PEPPER, EXECUTIVE DIRECTOR, IOWA INSTITUTE OF COOPERATION

Mr. **PEPPER**. Mr. Chairman, Senator Riegle, I am Gerald Pepper with the Iowa Institute of Cooperatives, and that is a State association of about 300 farm cooperatives in the State of Iowa. It includes farm supply cooperatives and marketing cooperatives and banks of the Farm Credit System, all owned and controlled by farmers.

Two-thirds of the farmers in Iowa belong to cooperatives, frequently more than one cooperative.

I, too, appreciate the opportunity to testify on S. 707, the domestic content auto import bill, and I thank you for coming to Iowa. S. 707 would force all manufacturers selling more than 100,000 automobiles and light-duty trucks in the U.S. annually to use a specified amount of U.S. parts and labor, ranging from 10 percent to 90 percent, depending on the number of vehicles sold.

If local content legislation became law, it could be devastating for Iowa farm exports and thus reduce farm incomes. Although portions of the U.S. economy are showing modest signs of economic recovery, this is not true of Midwest agriculture, and implementation of Senate 707 would assuredly be the straw that would break the camel's back.

Farmers' cooperatives are opposed to S. 707 because, first, it would invite trade retaliation against U.S. farm exports, such as soybeans, corn byproducts, by major corn and agricultural customers who now export autos and trucks to the United States, mainly Japan and the European Community.

Second, passage would violate U.S. international trade commitment and obligations under the General Agreement on Tariffs and Trade.

Third, cost more jobs than it would create.

Farmers' cooperatives sympathize with the plight of unemployed auto workers. However, local content requirements are not the answer. In fact, the record 1983 profits amassed by U.S. auto manufacturers are an indication that the industry is on the road to recovery and should be able to compete again with Japan.

Mr. Chairman, farmers' cooperatives believe that the passage of local content legislation is the wrong way to encourage the development of the competitive auto industry.

If imports are truly believed to be the cause of problems, then the industry should fully use the protection law that is already on the books.

For example, the auto industry could file a case under existing law with the International Trade Commission, which determines whether or not imports have been harmful. The industry has not chosen to do so, and instead saw a political quick fix.

In short, we are opposed to legislation designed to restrict trade problems when established procedures for dealing with trade problems have not been used.

Now, Iowa enjoys an impressive $3 billion in farm exports today. This vital outlet for U.S. corn, soybeans, and other products would be endangered by the passage of local content.

Its passage by Congress would signal an end to the protrade stance by the United States and by foreign nations to emulate our domestic content with disastrous results for competitive U.S. export industries such as agriculture.

If the United States imposes a de facto trade barrier such as the local auto content, American farmers would pay the cost of protectionism. Japan and the European community would likely purchase grain and other farm products from our competitors, further stimulating foreign production and depressing our ability.

Local content law would also provide the European Community with an excuse to restrict U.S. soybeans, corn gluten feed and citrus pellet exports to the community.

In addition, it would undermine recent encouraging trends for liberalized Japanese imports of beef and citrus and could even lead to smaller Japanese import quotas for these products. Such retaliation would be especially severe for American farmers and their cooperatives since Japan and the European Community together purchase about $16 billion in U.S. agricultural exports.

The General Agreement on Tariffs and Trade is a cornerstone of the world multilateral trading system. Local content law would violate GATT and entitle GATT participants to retaliate against U.S. exports or demand compensation.

Some might raise the question, why not aid the automobile firms when agriculture itself received substantial subsidies in the past. I would hasten to point out that agricultural subsidies do not penalize other industries as would be the case with S. 707, which penalizes agriculture. They are more properly related to the type of Government aids supplied to General Motors a few years back.

Farmer cooperatives are in full support with a need to find effective solutions to the widespread unemployment among autoworkers which prompted introduction of the bill.

However, we cannot support the establishment of a mandatory trade barrier with the dangerous implications for our ag exports.

Mr. Chairman, thank you very much for the opportunity to present this today.

Senator **Riegle**. I want to make one brief comment, and that is with respect to taking a complaint to the International Trade Commission. One thing that was not factually correct is that a complaint was taken there by the Ford Motor Co., and actually the Trade Commission found that there was substantial damage done to the industry by imports. There was a four-to-one vote.

Then, there was a second vote as to whether or not they were going to identify imports as the single most important factor causing problems in the industry. On that vote the Commission split three to two in their vote the other way. So there has been action taken on that. There is a long record there. I wanted you to know that.

Mr. **Pepper**. I lost three to two.

Senator **Riegle**. No, I lost three to two. I won by four to one, but my next round I lost three to two. In any event, I wanted to come back to something you said.

The **Chairman**. Mr. Ostendorf?

## STATEMENT OF DAVID L. OSTENDORF, COALITION REPRESENTATIVE, IOWA FARM UNITY COALITION

Mr. **Ostendorf**. Thank you. I appreciate the opportunity to address the domestic content issue. The Iowa Farm Unity Coalition represents eight statewide farm, rural, church, community, and labor organizations, and I am appearing today on their behalf: Iowa Farmers Union, Iowa National Farmers Organization, U.S. Farmers Association, the Iowa American Agriculture Movement, Rural, Iowa, Inc., Iowa Citizens for Community Improvement, Catholic Rural Life, and the Iowa United Auto Workers CAP Council.

The **Chairman**. UAW is a member of this organization?

Mr. **Ostendorf**. Yes, it is, it is indeed. Let me be clear from the start that we appear today in support of S. 707 and its goal of establishing domestic content requirements for motor vehicles sold or distributed in interstate commerce in the United States.

Let me also report, as Senator Riegle has already mentioned, that the Iowa poll conducted by the Iowa Cooperative Extension Service by the university in Ames has indicated this spring that 48 percent of Iowa farmers either strongly or somewhat support domestic content legislation. That was not a poll conducted by a partisan group.

Our support grows naturally out of our fundamental commitment to secure better farm prices, to stop the loss of family farm operations, and to revitalize the agricultural economy so that it, in turn, might help revitalize the national economy.

Likewise we share a fundamental commitment to the security of American jobs performed by American workers at fair and just wage levels and who, in turn, are able to buy American-produced food at affordable prices.

We do not believe the passage of S. 707 would adversely affect American farmers or American farm prices. This is the key point we would like to address.

Here in Iowa and many States throughout this Nation's heartland, the farm economy is in little less than a shambles. Since the late 1970's especially, farm families have been caught in a lethal combination of low prices and high interest rates, high production costs and declining net worth.

We are losing farms in this State and across the Nation at an alarming rate, and even our own Secretary of Agriculture here in Iowa indicated about 3 months ago in a poll that he conducted that within the next year and a half, we would probably lose 10 percent of the farms in this State—11,000 farms, resulting in the displacement of over 60,000 people from the countryside in Iowa alone.

We believe that low farm prices are and will continue to be at the very heart of this continuing farm crisis.

In short, we do not believe there is any significant linkage between passage of this bill and adverse economic impacts on American farmers. We got into the current crisis in agriculture in spite of extraordinary increases in farm exports since the early 1970's, and without domestic content legislation, and those who would attempt to link passage of this legislation to the economic demise of American agriculture are, quite simply, pulling our leg.

The trade expansionist, free-market philosophy that is often taken as conventional wisdom in this country would have us believe that the relentless growth of agricultural export markets will be the salvation of American agriculture.

We don't argue that agricultural exports are an unimportant part of the Nation's farm economy. We would, however, take strong exception to the conventional wisdom, and argue that increased farm exports at cheap prices have not and will not save or restore vitality to the American farm economy.

Just 3 days ago the USDA published its net farm income figures for 1983. Net farm income last year dropped to between $15 to $17 billion, its lowest level since 1971. The value of exports from the United States, agricultural exports, also dropped last year. Still, last year the value of those exports was still 4½ times greater over the same period of time than the value of exports in 1971.

In short, while farm exports have increased dramatically over this period, net farm income has not. What we are saying is that the export expansion effort that has been undertaken by our Government, and by many others, has never been, and never will be, a panacea for an ailing domestic farm economy.

As Dr. Berton Henningson, Jr., said on behalf of the National Farmers Organization in testimony before the Subcommittee on Department Operations, Research and Foreign Agriculture of the House Committee on Agriculture in July 1981, "History tells us that basing a farm policy on the anticipation of larger export markets cannot substitute for the stabilizing price support and marketing features of a domestic farm program."

We would also like to address several other matters pertaining to the issue of trade retaliation by Japan if S. 707 became law. Much of the concern about retaliation centers on U.S. beef exports to

Japan, which is the single largest country market for all U.S. agricultural exports and is an important importer of U.S. beef.

We also need to recognize that beef exports account for only a small percentage of total U.S. exports to Japan and a smaller percentage of total U.S. gross income from red meat animals.

Australia, which has domestic content requirements of 85 percent, supplied about 71 percent of Japan's 1981 beef imports. We would ask, is this the stuff of which trade retaliation is made? We believe not.

Finally, we would also pose some questions about all the clamor over trade restrictions by Japan, especially on meat imports, when the United States itself has a long history of import restrictions on meat.

The Meat Import Act of 1964, the Meat Import Act of 1979, were all attempts by the United States to limit the quantity of certain meats imported into this country.

We have no problems with these measures and agree that our domestic meat producers and other agricultural interests should be provided reasonable protectionist measures to assure their own economic viability.

Our point is this: If it's good for farmers to have such protection, isn't it also good for American workers tc be similarly protected through such legislation? We believe it is.

Finally we would simply conclude by saying we believe American workers and American farmers ought to be protected from imports that cut into markets for domestically produced food and manufactured goods.

We believe that measures must be taken like S. 707 to protect jobs and to ensure fair and just prices for American farmers.

We believe that this Nation's cheap food policy is beneficial neither to the producer or consumer or the worker, and that the vitality of our national economy hinges both on an immediate higher farm income and on a return of the American workers to their jobs.

Thank you very much, Senator Packwood. I appreciate the opportunity to appear before this committee to give our views.

[The statement follows:]

### STATEMENT OF DAVID L. OSTENDORF, COALITION REPRESENTATIVE

Senator Packwood and other distinguished members of this Committee, I appreciate the invitation to appear before you today as a representative of the Iowa Farm Unity Coalition to address the "domestic content" issue as incorporated in S. 707, the "Fair Practices in Automotive Products Act." The Iowa Farm Unity Coalition represents eight statewide farm, rural, church, community and labor organizations, and has been working since early 1982 to build a strong alliance of diverse interests to confront the farm crisis in this state and nation. The Coalition is comprised of the Iowa Farmers Union, the Iowa National Farmers Organization, the U.S. Farmers Association, the Iowa American Agriculture Movement, Rural Iowa, Inc., Iowa Citizens for Community Improvement, Catholic Rural Life, and the Iowa United Auto Workers CAP Council.

Let me be clear from the start that we appear today in support of S. 707 and its goal of establishing domestic content requirements for motor vehicles sold or distributed in interstate commerce in the United States. Our support for this legislation grows naturally out of our fundamental commitment to secure better farm prices, to stop the loss of family farm operations, and to revitalize the agricultural economy so that it, in turn, might help revitalize the national economy. Likewise, we share a fundamental commitment to the security of American jobs performed by American workers at fair and just wage levels and who, in turn, are able to buy American-produced food at affordable prices. We do not believe that the passage of S. 707 would adversely affect American farmers or American farm prices, and this is a key point that we would like to address at this stage of our testimony.

Here in Iowa and in many states throughout the nation's Heartland, the farm economy is little less than a disaster. Since the late 1970's especially, farm families have been caught in a lethal combination of low farm prices, high interest rates, high production costs, and declining net worth. This state and the nation is losing farm operations at a frightening rate; many that do survive are barely hanging on to their operations; and the ripple effect of the declining farm economy on small town businesses, on the tax base, and on employment in the factories of our cities is intensifying. The Iowa Department of Agriculture's Farm Credit Survey taken in March of this year indicated that some 10% of this state's farmers may be forced out of business in 1984-1985. The survey also indicated that about 40% of Iowa farmers are carrying an above-average debt load that will inhibit their long-range survival. As Iowa Secretary of Agriculture Robert Lounseberry said, "If 10 percent of our farmers leave the land, we are talking about the loss of about 11,000 farms and a farm population of nearly 60,000 people. Should this happen, it would be a staggering blow to Iowa where eight out of 10 jobs depend upon agriculture and the rest of the economy is also troubled."

The Coalition believes firmly that low farm prices are—and will contin;ue to be—at the very heart of this continuing farm crisis. We do not agree with those interests that oppose domestic content legislation on the presumption tht it would trigger retaliatory measures to restrict the flow of U.S. agricultural exports to the auto manufacturing nations most affected by the legislation (especially Japan), and that contend that U.S. farmers would, therefore, be adversely affected by domestic content requirements.

In short, we do not believe that there is any significant linkage between passage of this bill and adverse economic impacts on American farmers. We got into the current crisis in agriculture in spite of an extraordinary increase in farm exports since the early '70's, and without domestic content requirements. Those who would attempt to link passage of this legislation to the economic demise of American agriculture are simply pulling our leg.

The trade expansionist/free market philosophy that is often taken as "conventional wisdom" in this country would have us believe that the relentless growth of agricultural export markets is the salvation of American agriculture. We would not argue that agricultural exports—representing the output of about 35% of the harvested cropland valued at over $34 billion in fiscal 1983—are unimportant to the nation's farm economy. We would, however, take strong exception to the "conventional wisdom" and argue that increased farm exports at cheap prices have not and will not save, or restore vitality to, the American farm economy. Just three days ago, the USDA published figures showing that net farm income in 1983 dropped to between $15 and $17 billion—its lowest level since 1971. While the value of U.S. agricultural exports also dropped last year, the value of those exports ($34.8 billion) was some 4½ times greater than the value of exports in 1971. ($7.8 billion.) In short, while farm exports increased dramatically over this 12 year period, net farm income did not. During this same period of expanding exports, the State of Iowa alone lost some 28,000 farms, or about 20% of the farms that were in operation in 1971. This is not to say that there were no "good years" for farmers during this period, nor that farm exports did not make an important contribution to net farm income. But except for a brief period of commodity price increases tied to the Soviet grain purchases in the early '70's, export expansion has never been a panacea for an ailing domestic farm economy. (See attached chart.)

U.S. NET FARM INCOME AND U.S. AGRICULTURAL EXPORTS, 1970-83

[In billions of dollars]

| | Net farm income | Value of agricultural exports |
|---|---|---|
| 1970 | 14.38 | 6.72 |
| 1971 | 15.04 | 7.75 |
| 1972 | 19.50 | 8.04 |
| 1973 | 34.43 | 12.90 |
| 1974 | 27.30 | 21.29 |
| 1975 | 25.55 | 21.57 |

## U.S. NET FARM INCOME AND U.S. AGRICULTURAL EXPORTS, 1970-83—Continued

[In billions of dollars]

| | Net farm income | Value of agricultural exports |
|---|---|---|
| 1976 | 20.13 | 22.14 |
| 1977 | 19.82 | 23.97 |
| 1978 | 27.65 | 27.28 |
| 1979 | 32.25 | 31.97 |
| 1980 | 21.50 | 40.48 |
| 1981 | 30.05 | 43.78 |
| 1982 | 22.05 | 39.09 |
| 1983[1] | 15-17.00 | 34.8 |

[1] Preliminary estimates as of July 3, 1984.

Source: U.S. Department of Agriculture; chart developed by the Iowa Farm Unity Coalition, July 1984.

Ward Sinclair of The Washington Post addressed this same issue in an article last fall entitled "By Hawking Our Grain We Gamble Our Future" (The Washington Post, Sunday, Sept. 25, 1983). Sinclair wrote:

"* * * most of the politicians, farm organization leaders and agribusiness executives who profess to speak for American farmers are talking and marching in lockstep.

"As they have done virtually without exception for 25 years, they urge more exports as the most expedient way of unloading American surpluses. This approach became graven into policy after the Soviets made huge, unexpected gain purchases here in 1972. The Nixon administration urged farmers to expand their plantings and count on a continuing upward surge of income and exports.

"The talk today points in the same direction: more market development, more credit gimmicks for the developing countries, more federal subsidies of exports, more vending of processed food overseas, more punitive measures against competing nations that are crowding American farmers out of their traditional safe markets.

"For the sake of argument, let's call this bankrupt thinking, literally and figuratively."

And as Dr. Berton Henningson, Jr., said on behalf of the National Farmers Organization in his statement before the Subcommittee on Department Operations, Research and Foreign Agriculture of the House Committee on Agriculture in July of 1981:

"The overwhelming evidence, from 30 years of expanding the exports of cheap agricultural commodities, reveals that foreign markets have never been adequate to sop up enough US farm production to sustain adequate levels of farm income. The agricultural trade expansionists have indeed placed US farmers on a precarious export footing. Although the stabilizing features of the domestic farm program have nearly eliminated in response to free trade rhetoric, even the massive expansion in farm exports during the past five years has failed to create enough demand to prevent farm income from sliding to record depression-level lows."

We agree fully with Henningson's conclusion, that—

"History tells us that basing a farm policy on the anticipation of larger export markets cannot substitute for the stabilizing price support and marketing features of a domestic farm program."

In short, the achievement of fair and just prices, based on and moving toward a goal of full parity, are the key to the recovery and vitality of American agriculture—not more cheap exports and certainly not contrived concern about the "impact" of domestic content legislation on the American farm economy. Low prices, according to 92% of the farmers recently surveyed by the Iowa Farm Poll, will put many farmers out of business in the next five years—not sagging exports, and not domestic content requirements.

The Coalition would also like to address several other matters pertaining to the issue of possible trade retaliation by Japan if S. 707 became law. Much of this concern about retaliation centers on U.S. beef exports. Japan is the single largest country market for U.S. agricultural exports, and has been for 20 years. It is also the largest customer for U.S. beef exports, and in 1981, our exports of beef and veal to Japan accounted for about half of total U.S. exports of these products. But it is important to note that these beef exports accounted for only 2.5% of total U.S. agricultural exports to Japan, and for 0.4% of total U.S. gross income from red meat animals.

It is also important to note that Australia supplied about 71% of Japan's 1981 beef imports, and that Australia has protected its domestic car industry by imposing an 85% local content requirement or 50% duty on imported cars, as well as limited imported cars to some 20% of its market. Is this the stuff of which trade retaliation is made? We believe not.

Japan already has a protectionist agricultural policy. As A. Ellen Terpstra, Analyst in Agricultural Policy for a Division of the Congressional Research Service writes in her 1983 report, "U.S.-Japanese Agricultural Trade Relations":

"Memories of past shortages of food supplies due to war, realization of the decline in self-sufficiency, and the temporary U.S. soybean embargo in 1973 all encourage a protectionist agricultural policy and efforts to achieve secure food supplies that need to be imported."

Terpstra also cites the USDA belief that Japanese demand for some goods is slowing due to the reduced growth in real consumer incomes, and concludes that:

"Political pressure from Japanese farmers as well as the concern for some level of self-sufficiency and food security has and will continue to make it difficult to significantly liberalize agricultural trade relations with Japan."

We believe, then, that the fears of trade retaliation by Japan against U.S. agriculture are unfounded. Japan has no history of retaliating against agricultural trading partners who limit the content or import of Japanese autos. It is highly unlikely, moreover, to shift its food imports from the U.S. to other nations that impose far tougher restrictions on auto imports.

Moreover, we would also pose some questions about all the clamor over trade restrictions by Japan, especially on meat imports, when the U.S. itself has a long history of import restrictions on meat. The Meat Import Act of 1964 (P.L. 88-482); the Wholesome Meat Act of 1967 (P.L. 90-201); and the Meat Import Act of 1979 (P.L. 96-177) were all attempts by the United States to limit the quantity of certain meats imported into this country. We have no major problems with these measures, and agree that our domestic meat producers (and other agricultural interests) should be provided reasonable protectionist measures to assure their economic viability. Our point is this: if it's good for farmers to have such protection, isn't it also good for American workers to be similarly protected through legislation? We believe it is.

We realize that the Congress faces something of a dilemma in all this—a dilemma perhaps best noted by Agricultural Policy Analyst Elizabeth Withnell in her Congressional Research Service paper on "A History of Import Restrictions on Meat," done in 1981. "Today," she wrote, "the Congress is still discussing the proper balance between the need to participate fully in world export trade and the duty to protect the integrity of the domestic food supply and those who produce it." Today we would add to this discussion/dilemma the matter of protecting the jobs of American workers in the automotive manufacturing industry.

The Iowa Farm Unity Coalition believes that the balance to be struck today between world export trade and domestic import requirements includes passage of S. 707. Our support of this legislation is complementary to our fundamental commitment to securing just farm prices for American farmers. Like farmers, this nation's auto workers have suffered heavily since 1978. Between 1978 and 1982, 250,000 hourly jobs were lost at U.S. auto companies, a drop to 66% of the '78 level. This year, hourly employment is predicted to rise to 78% of the 1978 level, with some 170,000 workers, however, still out of jobs. At the same time, 1984 auto company profits may well double their 1978 level. The impact of this trend has been devastating on affected individuals and families, and on the entire society * * * just as the impacts of the farm crisis have been devastating.

American farmers are the very backbone of this nation's largest industrial sector—the food supply and distribution industry. When American farmers don't have the income to buy equipment and other goods, American workers are adversely affected. The American auto manufacturing industry is also one of the larger sectors of our national economy. When its workers are unemployed, shut out of jobs, American farmers are adversely affected.

We believe that American workers and American farmers ought to be protected from imports that cut out jobs and cut into markets for domestically-produced food and manufactured goods.

We believe that measures must be taken—like S. 707—to protect American jobs, just as we believe that measures must be taken to ensure fair and just prices for American farmers, with a goal of full parity.

We believe that this nation's cheap food policy is beneficial neither to the producer or the consumer or the worker, and that the vitality of our national economy hinges both on immediate, higher farm income and on the return of American workers to their jobs in American factories.

We believe that American farmers and American workers should join together in working for just farm prices and for just-paying jobs; that American farmers and American workers should continue to join together in partnership, as we have done in the Iowa Farm Unity Coalition, to assure the survival of family farm agriculture and the survival of American jobs. We believe that only through that partnership will both survive and flourish, and that the American economy will be fully revitalized.

We appreciate this opportunity to appear before you, Senator Packwood, and before the entire Committee, to share our views in support of S. 707.

The CHAIRMAN. Let me ask a question about the groups. I am familiar with most organizations, but I am not with yours. The American Agricultural Movement of Iowa, what is that?

Mr. OSTENDORF. It is the Iowa branch of the American Agricultural Movement, which, of course, is a national group of farmers from around the country that have been working since about the mid-1970's to attain higher prices for American farmers and move toward other adjustments in agriculture policies.

The CHAIRMAN. Do they have a distinguishing feature that separates them from the National Farmers Organization or——

Mr. OSTENDORF. I would say they share basically similar philosophies.

The CHAIRMAN. Farm Union, I know, NFO, I know. What is U.S. Farmers Organization?

Mr. OSTENDORF. U.S. Farmers Organization is an association that has been around since about the early 1950's, and has been very supportive particularly of attempts to bring about parity prices.

The CHAIRMAN. Rural Iowa?

Mr. OSTENDORF. Rural Iowa is a State affiliate of the national organization Rural America, constituted of a number of people concerned in general about rural and farm issues.

The CHAIRMAN. Catholic Rural Life?

Mr. OSTENDORF. Catholic Rural Life is, in Iowa, a group associated with the National Catholic Rural Life Conference—which is a national group of Catholics that have been in existence for 60 years now, and concerned about rural life and the vitality of the rural economy of this Nation.

The CHAIRMAN. The Iowa United Auto Workers CAP Council, is that a local of the UAW?

Mr. OSTENDORF. No, it is the State UAW Community Action Program.

The CHAIRMAN. And the Iowa Citizens for Community Improvement?

Mr. OSTENDORF. That is primarily an organization of people concerned about economic and social justice issues related to urban people, and that continues to work closely with many of the farmers and rural organizations.

The CHAIRMAN. I want to make sure I understand your philosophy. Did you also indicate that the concept of S. 707 should be extended to other industries? The steel industry would love to have import quotas or some type of equivalent, as would the concrete would and textiles industries. Should protectionism be extended across the board to those American industries that, for whatever reasons, are finding themselves troubled and throttled by foreign competition?

Mr. **Ostendorf**. I did not say that. The coalition has not taken a position on those issues. Our position, as I attempted to indicate, is that when it comes particularly to the agricultural economy, and we have import restrictions, the issue is simple.

If we have restrictions, and farmers, beef producers and other meat producers in this country are covered by such protectionist legislation, what is good for them is good for American workers—what is good for the goose is good for the gander.

The **Chairman**. Do you think the beef producers should have those protections?

Mr. **Ostendorf**. I think they ought to.

The **Chairman**. So the citrus producers be protected against Mexican citrus?

Mr. **Ostendorf**. I do not have a position on which to respond to that question.

The **Chairman**. I sat in a meeting, I don't remember the name of the trade association for citrus in this country, where they were complaining about the inability to get into the Japanese market. That was half of it. They were arguing against protectionism. During the other half of the meeting, they were complaining about the Mexican imports into this country.

When I called this to their attention, there was no conscious hypocrisy. They did not see those as any kind of related issues.

Senator **Riegle**. Don't laugh too much. We are going to talk about beef in a minute.

The **Chairman**. God really did bless this country with an extraordinary capacity to farm. That becomes especially clear when I go to countries like Israel and I see what they do with land we wouldn't use. What they do with a desert is what we could do with a desert if we have to.

We haven't scratched the surface of what we could do in this country if we have to. I see nothing to be ashamed of in saying we do happen to be a great breadbasket. Other countries do not farm as well as we do. They do not have the land and capacity to do it.

We ought to take advantage of this one great natural blessing we have and exploit it. I use that term—exploit it to the fullest.

I was fascinated by the figure that you mentioned, Mr. Gallagher. We export more soybeans today than we grew all together 15 years ago?

Mr. **Gallagher**. Correct.

The **Chairman**. That's a fascinating figure. I'm going to use that in speeches. That was a great example of what we can do. Your explanation of the background of finding overseas markets is very similar. They started assessing themselves, I don't recall, a penny or two a bushel starting in 1946 or 1948 in setting up their own overseas office to market wheat overseas.

Now we sell almost all of our exports to Asia. It has been an absolute boon for us. The markets have been relatively consistent. It is an example of what farmers can do for themselves. They have no help from the Government, not even much help from the trade offices.

I don't know if soybeans went through such an experience in their early years or not. The Government has been relatively late to the coming of the concept of marketing overseas. It has been mainly the producers themselves.

Senator **Riegle**. First of all, I am delighted to have all of you here. I have listened carefully to what you have said. I think your thoughts are very important for us to consider. I want to put a couple of issues on the table as well.

I want to preface it by saying—I guess we have been in Congress the same length of time. I have been there 18 years, and I think you came in 1966 as well.

The **Chairman**. I came in 1968.

Senator **Riegle**. I can't think of a vote that I have cast in 18 years that would not have been a vote that was for helping American agriculture. You might have had a difference of opinion on something that was an agriculture issue, but on anything having to do with supporting the farm economy, soil conservation, extension service, or any of those issues, I want you to know where I start from in terms of my own orientation.

I feel very strongly about it. I felt that way when I represented an urban district, Flint, MI, where I had some farmers, but not many. I descended from farmers personally, but I didn't have that many in my district at that time. Now I have many in my State, because we are a major agricultural State, not to the extent of Iowa but pretty strong in our own right.

I think there is a connection in urban people and rural people. I think what happens in the cities and what happens on the farms has to be consistent in some important aspects.

I see my job as a Senator to not only represent the interests of my State, the urban and rural interests, but by the same token try to understand Iowa and the whole country and try to be a good U.S. Senator.

I have always found it easy to support and help agricultural industry because I think it's crucial to our economy. I think it is critical to our value structure, our living standard, and there are a lot of benefits to having this kind of productivity and efficiency in our agricultural base.

A lot of it is God given in terms of the land and climate that we are blessed with, but we have also developed that so that the efficiency that we have the operations of farms here far surpasses what they do in Japan today.

Japan may be good in their industrial setting, but their farm system isn't nearly equal to ours in terms of the productivity and efficiency that we crank out.

As you were talking I was struck the enormous amount of help that our Government has felt was important for agriculture to have over the years and to continue to have today.

I think agriculture today has been given as much, if not more, emphasis in terms of Government concern, Government initiative, and Government help than probably any other industry that we have.

That may sound strange, and you may question that or you may not feel comfortable hearing that because, you know, farmers are rugged individualists, I know both my grandfathers were, and they wouldn't like the fact of the Government, in a sense, being a partner in any very substantial sense. But if you take a look at everything that we have, all the farm programs, the cost of all the farm programs, whether we like the individual programs or not, an awful lot of money is spent that way.

A lot of tax dollars from nonfarm families are used to support those programs to try to help farming be more economic, be more profitable, to help people in farming be able to stay in farming: We give money and attention to soil conservation. We provide the money and help to the extension service, which very properly we should, and I think is one of the great things in our State. We have water projects, rural electric assistance, farm credit, disaster assistance, price stabilization programs, and export promotion programs, we designed to assist the American farmer side of thing, and I think we should.

Without trying to give you the whole list—I think the country has made a decision and we have stuck with it over the years—that agriculture is so important to the well being of the whole country that it deserves to be kept strong.

I wish it were stronger today. I'm concerned that it isn't any stronger than it is because of the impact on interest rates and various other things.

It seems to me in the same sense that we have helped—we as a society and as a people—that we help each other by helping major sectors of the economy.

I don't know what we should do when the time comes with the industrial base in trouble. Let me tell you, it's in trouble. You could measure it a lot of different ways.

Take a look at what people are willing to pay for the stock of major industrial companies in the stock market. Take a look at the trade deficit and we have some real problems.

I think one of the problems agriculture has to address is whether the help that you have needed at different times and you need today—and is properly given in a variety of forms—whether that same operating principle does or doesn't apply in some other major sector of the economy.

I think the manufacturing segment such a section of the economy. It doesn't produce food that we have to eat, but it does produce an awful lot of other things we need to have to produce the things we need and to do other things we need to function in a modern age.

It produces an enormous amount of the wealth so bills are paid taxes are paid. Those taxes support the Defense Establishment, support everything we have to do in this Nation, colleges, schools, public education system, you name it.

I guess what I am saying is that I would ask you to really think about the question of what is going on in the industrial base; not just in the sense of how is it going to affect you directly but the effect on the overall economy.

From the point of the view of the country, if the manufacturing and industrial base are in trouble, it isn't going to be long before their troubles start to multiply your troubles. There is no way that you can walk away from them or should, any more than they should walk away from you.

I can tell you, as long as I am in the Senate, I am not going to let States or areas that are big in manufacturing walk away from the farm base. I don't think it would be right. I think it would hurt the country.

We need the farm base. We need it to be strong, and we need it to be in absolutely tiptop shape. We also need an industrial base. And if we buy our tractors from Korea or in the future buy our combines from another country because their workers are working from another level, it won't be long before increasingly the same thing happens in agriculture. Whether it is citrus from Mexico or vegetables from Mexico or other places, new modern technology can be applied to areas in the Argentinas in the world the Brazils of the world to produce more than they have in the past.

If we are going to be in a dog-eat-dog situation, it is only a matter of time before you may find the same problem you are talking about with beef maybe showing up in soybeans, maybe showing up someplace where we look really strong.

We are all looking for answers. I don't come pretending our answer is the only answer or the perfect answer.

I will tell you this, if we ever get to the point where one group, maybe it's agriculture, takes a look at the manufacturing guy and says sorry, Charlie, I can't worry about your problem, about what happens to you, because I just have to worry about myself, or the person says that about farming, how long do you know this Nation is going to stay on top? Not very long.

We are not on top now. That's hard to come to grips with. We have a $200 billion deficit. We are borrowing more than we are putting out. We have a $120 billion trade deficit. Our interest rates are up to 13 percent. The interest rate in Japan today is 6 percent.

How long is this going to go on before we find ourselves in a situation where every group is trying to get what it can get, and basically saying forget the other guy in our own society?

We are going to find out we are going off in 10 different directions, and we are not going to have the kind of America that we had during the period you grew up, and I grew up, and you grew up and you grew up and the two of you grew up.

We have been enormously blessed in this country because we looked out for one another. When agriculture needs help, it gets help. I think it's not getting as much help right now as it needs to be getting. Frankly, I vote for more help for agriculture.

We can't walk away from the industrial base. We can't let this go overseas. If it goes to Japan or to Korea, there is no way they are going to eat enough of your beef or your pork or your soybeans or enough of whatever you produce in this country to make us whole again.

I wish I had a blackboard. We have a $120 billion trade deficit and an $19 billion agriculture surplus, but $19 is not bigger than $120, and the $120 is growing faster than the $19 is growing.

I look at this, and I say to myself, we have to start thinking as a country again. We have to start thinking of the urban areas and rural areas together, and the industrial States and farm States together.

Ronald Reagan was just over to the Normandy invasion shore. We didn't let the farmers on one beach and the auto workers on one beach. We were all mingled together and went up on the beach to do something for this country. I think that is what we are going to have to do now.

I am prepared to go in front of the auto workers and say whatever American agriculture needs, we are going to fight for and get. If agriculture isn't strong in this country, it isn't going to be long before we are a second-rate country.

By the same token, I have to say to you and you have to say to your members, to have a strong agricultural base, we have to have a strong industrial base. If not, it is going to catch up with us. It is going to be your chopping block.

There is a lot of selfishness being peddled these days, and I don't mean by you; no, what I mean is a lot of "just take care of yourself" philosophy. The whole thrust of this country has been that we looked after each other and kept track of what is happening to all the sectors, and no more so then to the American agriculture sector and I am proud of that fact.

I don't apologize for it. I voted for it, and I will continue to vote for it. It isn't always done right, but I will tell you this, we would not have the efficiency today or the cost-production advantages today if we had not done these things. If we had not had rural electric, if we had not had world disaster service or the extension service, we would not have had that.

We cannot do these things by ourselves. We have to help each other. I will tell you, some of the money for the agricultural programs came from auto workers, merchants and other industrial workers. They were asked to pay those taxes, even though that money was coming out here to Iowa to do something good for our country. That's the spirit I want you to look at this with.

If we write off the industrial base, I will tell you something, it's not going to be long before the problems in agriculture, as bad as they are today, are going to be worse.

Mr. PEPPER. Mr. Senator, may I have a response? I would think agriculture would accept your challenge without any doubt.

Senator RIEGLE. It isn't a challenge. It is a partnership.

Mr. PEPPER. I would challenge you to make sure that industry was fully aware of what its desires, if passed legislatively, might do to agriculture. That's what I hope you continue to search for so that in the final analysis nobody gets hurt back home when we deal with international relations.

Senator RIEGLE. You make a good point. We have got to do a better job on the industrial side. We have to produce more, produce it better, get the prices down, be more efficient, and we are struggling to do it.

The problem is, we can't always do it overnight. You have to rebuild factories, change operating methods, redesign cars, take big cars, and change them into small cars. There is a lot involved in it.

We made mistakes on the manufacturing side. I am frank to admit it. I'm sorry that is the case. The point is, if we are thinking about America, you know, let's not cut off our arm and think that by cutting off our arm somehow our leg is going to be better, or cut off the leg because somehow or another that is going to help another part of the body.

We need both legs, both arms, all parts of the body, and I think agriculture and manufacturing are in the same boat. We had better row together, or the time is coming when we are going to pay a terrible price. I don't want to see that happen. This country is much too precious for that.

The CHAIRMAN. Don, you were in the Congress at the same time I was, when we passed the legislation after the first oil boycott. I remember the testimony of the auto companies. They had two arguments.

One, in 1976, they said that we can't do it by 1985. We can't get there that fast. Here was an industry that turned from cars to tanks in 6 months. They said they couldn't make cars that get 27½ miles to the gallon, given 9 years' notice. They said it couldn't be done, despite the fact that even then we had a plethora of Volkswagens and other cars doing it.

The other thing they said was the American consumer doesn't want it. They fought and dug in their heels and opposed the legislation, and we passed it over their objections. Now they are beating their breasts and bragging about the mileages. Look what they have done.

They wouldn't have gotten there but for Congress. I have misgivings about many industries that have not been faced with sufficient competition.

Every one of you that deal with the trucking industry has seen it. Truckers fought tooth and nail against deregulation of the trucking industry.

Senator RIEGLE. You and I voted for it.

The CHAIRMAN. It was fought also by the Teamsters union. What happened, both in the airline industry and the trucking industry, so long as all of the workers and truckers were unionized, and so long as they all paid the same wage, and they had a master union, it didn't matter what the wage was, because they said, "Gee, folks, the costs have gone up. You have to raise the amount we charge the farms."

So long as all of the costs were the same, they all went up. As soon as we deregulate, and as soon as some companies started going out and being formed, ironically, by Teamster drivers that decided to form their own companies, it has made a world of difference. I will wager every one of you has better trucking service and more trucking service.

You are seeing it now in airlines. Sure, you are going to have some bankruptcies. I love what Fred Kahn said when he was interviewed on one of the morning news shows within the last 6 months, and the newscaster said, "Professor Kahn, some of the airlines are going bankrupt." He said, "Precisely. That's what we intended."

He said the Government was not set up to make sure that the inefficient make some money and the efficient make a lot of money. That is not the point. We are not trying in this country to prohibit capitalistic acts between consenting adults.

When you have perfectly normal people able to negotiate for themselves, they should be able to. Is the airline industry going bankrupt? Not as an industry. Are new companies making a go of it? You bet. They understood there is a market to be served.

I sense that what happened in the auto industry was similar to what happened in the airline and the trucking industries. So long as there was no significant foreign competition, and so long as the costs of all of the American manufacturers, including labor costs, were roughly the same, then it didn't matter what the costs were because they all started from the same cost base, and they didn't have to be efficient, so long as they were all equally inefficient.

One day they were suddenly faced first with funny looking little "bugs" from Germany, and then the tremendous growth of imports from Japan, and it has forced them to compete and improve productivity in a way that, I think, they never would have done otherwise.

Don, I don't want to see the steel industry go to Brazil, and the shipbuilding go to Korea, and the auto industry go to Japan, but I don't want to protect them to the extent that they are not faced with competition to the fullest extent.

Senator **Riegle**. Mr. Chairman, if I may say, I agree with you on this point. The question is, how do we do it? Here is the danger we face. Come next March, the voluntary import limits that held the Japanese to a 21-percent market share expire. That is, by the way, over a $21-billion item, so it's a lot of dollars you are talking about.

When those limits come off, Japan's cost advantage is such that there is no reason why they can't drive their sales percentage up to 40 percent. In fact, estimates by reputable outside analysts show that that is likely to be what happens.

If that happens, it will have direct impact on the manufacturing cost numbers in the auto industry. If you suddenly have that much more business taken away from you then your unit price on anything, in this case cars, goes up. You get hit so hard that your ability to continue to function in that environment becomes impaired very, very quickly.

That's one of the reasons why people don't want to buy auto stocks today, because they are concerned that that can happen next year.

I am all for the competition. Our bill increases competition. It says to the Japanese producers, come on in. Build your factories here. Use the labor and use the content, the steel, the rubber and so forth in this society, and let's have upwards of 4 domestic producers or 5, let's have 10. Let's have Toyota and Nissan. Let's all produce here.

I think if everybody is producing here, that is going to help drive the prices down. I just think that you will find that that happens. Everybody is going to want more market share. Mr. Toyota is not a nice guy in that area. He is a tough, hard-nosed business person, but at least then we would be operating on the same set of ground rules. We are not now. That's one of the reasons we can't get into their market.

I might say one other thing. You talked about the need for us to mandate the fuel economy back years ago, which we did, and the auto industry squawked about it at the time, but we mandated it that the improvement on the average car go up to 27½ miles per gallon.

We did not give them any money to do it. We did not say here is the goal and here is a pot full of money. We said here is the goal.

Get it done. They have met that task. Here is the irony. Today in our country, free choice of cars, anybody that wants to buy a car can buy any car they want to buy, large, small, foreign, domestic, you name it.

Today, more people are going out and buying bigger cars with low mileage than there are people going out and buying those nice fuel efficient cars.

I have a Renault Alliance, 50 miles to the gallon, but I see an awful lot of new cars going by me twice as big as my car. People, for whatever reasons, want the bigger car and the lower mileage and extra comfort.

You would have a hard time fitting in my car because you are a bigger guy than I am.

Mr. **Pepper**. I drive a big American car.

Senator **Riegle**. A lot of people are going out today and getting bigger cars and not getting the car with the high mileage which the government said you have to build. In our society, consumers do have the last word. An awful lot of people aren't buying the small cars. What is piling up are the small cars. The big cars are going like hotcakes.

You say to yourself, particularly the Chairman, wait a minute everybody, this isn't right. People just go right on in and buy the big car, the big Buick or Oldsmobile or whatever it is that you bought or others are buying and drive out the door in that.

We haven't been very successful in telling the American people what is best for them when it comes to buying cars. I just hope that we can find a way to work together here so we come out ahead.

I am not asking the farm economy or any other part of the economy to subsidize inefficient automobile production. That would be wrong to do. If that was the goal we set for ourselves, that would be a mistake.

Mr. **Kleckner**. Mr. Senator, if the figure is $1,000 extra per car, that's the minimum figure I have heard, I have heard even higher, $1,800, if that is true, we are subsidizing, for whatever reason, 8 million cars sold, money that could be spent on extra food.

Senator **Riegle**. Let me explain why those numbers are incorrect and misleading. It is very important to see where they come from. For one thing the automobile workers have a health insurance program that is part of their negotiated package.

It costs about $400 a year for the average autoworker. In Japan, they also have a health insurance program, but it is not paid for by the company. It is paid for by the government. It's national. The autoworker in Japan gets the medical benefits and medical attention from the government, so it doesn't show up in the price of the car.

Part of that cost difference you are talking about has to do with other differences in our two systems. You say to yourself what does that mean? How do I rationalize that into an equation? It's very hard to do.

I mentioned to you before the difference in income levels and the difference in living standards. A farmer in Japan today does not live as well as a farmer in Iowa. An autoworker in Japan doesn't live as well as an autoworker here. The same is true in Korea, and in Singapore still another notch down.

The problem we are going to have to face is that if any of those nations get into the agricultural business more than they are, such as those in South and Central America where you have wage rates and family income levels of $2,000 a year or $1,500 a year that can go out and with government help produce an agricultural commodity, you are going to find the same sort of thing in agriculture as we see in the manufacturing sector.

Our farm families are going to try to live in our society and our standards and can't get by on a $1,500 a year income. There are farmers now being forced to and are being washed out of farming.

If that happened in a full scale wave, you would find the same thing working here. You don't have to look ahead. You can look back. This happened in beef. I don't know whether the Farm Bureau supported the efforts to have limitations on beef or not, because the farm industry as a whole did do that, and we found because of lower costs of production on the other side, that you could not, even with a very efficient operation in terms of cost standards and living standards in the United States, compete with that foreign competition.

The same is true with sugar and dairy products. It has not happened yet in some of the other major products we produce in this State such as soybean and some of the grains because we have a technological edge on that that nobody has been able to match.

If it should be matched, what do you think is going to happen when you folks get squeezed out of the game?

Mr. KLECKNER. Senator, they won't match it as long as we are forced to compete.

Senator RIEGLE. Can your farm families live on $1,500 a year?

Mr. KLECKNER. If we are not forced to compete, we will not adjust and will not compete. Please, don't help us any more than you are currently helping us. We are where we are today with all your help.

Senator RIEGLE. The Reagan administration has been helping you the last 2 or 3 years.

Mr KLECKNER. I wait 112 days after breeding for my sows to farrow. All this didn't happen the last month or two.

Senator RIEGLE. It seems to be getting worse.

Mr. CHAIRMAN. Thank you all very much. The next panel to testify includes Mr. Richard Sullivan, assistant director of the UAW; Mr. Bill Stewart, assistant director of the UAW, region 4; Joseph M. Zagnoli, field representative of the United Rubber Workers; and Mr. Jacob Clayman, president, National Council of Senior Citizens.

Mr. Sullivan, go right ahead.

## STATEMENT OF RICHARD SULLIVAN, CHAIRMAN, UNITED AUTO WORKERS, LOCAL 1237

Mr. SULLIVAN. Thank you, Mr. Chairman. I am Richard Sullivan, chairman of local 1237, Burlington, IA. I am also a chairman of the Champion Corporation Council, which about 4 years ago we represented eight plants, and now those plants are down to five.

We feel that the majority of this is because of the imports of finished spark plugs and also engines into the United States. The rise of the imports have not been confined to finished vehicles.

In the last decade the value of the auto parts imported into the United States from countries other than Canada has grown at the annual rate of 24 percent. The estimates in December are that 2.5 million engines or 1.7 million transmissions will be imported during the next several years.

As a parts supplier in the auto industry, that 2.5 million engines means that is 100 million spark plugs that we at Champion feel that we have made to put into the engines. Also, in the imports in the automobile industry, in the parts suppliers which we are part of, at this time we have over 700,000 autoworkers and 1,650,000 supply workers for a total of 2.3 million jobs.

The industry consumes 21 percent of all the steel used in this country, 50 percent of the iron, 34 percent of the zinc, 12 percent of the aluminum, 13 percent of the copper and 60 percent of the synthetic rubber.

In the parts supplier industry we most certainly are for this bill. I want to go on record for that.

We think that there is a number of things that has been said here today, one of them in regards to the unemployment, were saying that the auto industry is healthy. The auto industry is healthy, I guess, for the automobile industry but not for the workers themselves.

We still have over 170,000 automobile and part suppliers laid off. These people are out of unemployment. They don't count on a statistic anymore. According to the survey, jobless rate set too low in Iowa, we look at a study conducted by the Iowa State University, Cooperative Extension Service, found that 17.5 percent unemployment rate in March 1983 where according to Job Service they said it was only 6.5 percent.

It so happens we had a lady in our shop the other day that said, "Oh, good, my husband is no longer unemployed." I said, "How is that?" "No, he didn't get a job. He ran out of unemployment, so he no longer counts."

I think something has to be done. I heard the Senator say this morning we did not want to turn the clock back. We think you have already turned the clock back. We are getting in a position where we were when the Revolutionary War was fought over because we are being turned into a colony.

All of our natural resources are being exported with the goods being imported back into the United States. We think this is very unfair. We think that something should be done about it. We feel that we should have an auto content bill.

Also, it says this morning when you are talking about we have to be competitive, we want to know what is going to happen, does this mean that we have to reduce our standard of living to those individuals living in Singapore, Taiwan, or Korea, we think not.

We think that we can have a content bill. We can make a good strong America. We can get along with the farmer, and I haven't heard anything mentioned this morning about the number of farmers that work in our small plants.

Burlington, IA, is a town of about 35,000 people. The plant that I represent has 400 workers in it. I would say that there is probably about 20 percent of those workers in that plant that do have a small farm. They have to work in the factory in order to make the wages to keep themselves above ground, so to say.

Mr. Chairman, that is about all that I have to say. I certainly thank you for your time and the opportunity to address you. I do urge you to support the content bill.

[The statement follows:]

### STATEMENT OF RICHARD SULLIVAN, CHAIRMAN, LOCAL 1237, UNITED AUTO WORKERS

Mr. Chairman, Members of the Committee, I am Richard Sullivan, Chairman of Local 1237, U.A.W., Burlington, Iowa. I thank you for this opportunity to testify before your Committee on behalf of the members of the Local Union, U.A.W., and their families, of the small parts suppliers in the auto industries.

The problems in the U.S. auto industry have caused us, in the small parts supplier market, to lose a number of jobs here in Iowa, and throughout the United States. This is due to the import of spark plugs and the import of finished automobile engines from Mexico and Japan.

The Champion Spark Plug Company, of which we at Iowa Industries, Inc., are a subsidiary, on Friday, August 1, 1975, made the announcement they would build a new $13 Million Ceramic Insulator Plant next door to our Assembly Plant. The plant would have 170,000 square feet of floor space, and was eventually expected to employ approximately 500 persons.

The first employee moved to the new Ceramic Plant from the Assembly Plant, as per our agreement, in January, 1977. In the next few months, during the start-up period, 60 employees transferred to the new plant.

In May of 1981, after the problems of imports and the down-sizing of cars, the Company called a meeting with the Union to work out a close-down agreement. This is a very hard thing to do, when you think about how it effects people's lives after working for a company for 15 years or more, and having to tell them that maybe they would be recalled, or maybe they won't, depending on just what happens to the spark plug industry.

The plant was closed, and all workers were out of the plant on June 22, 1981. Import of spark plugs is the big problem that caused the close-down of the new plant. There are three major spark plug companies in the United States. They are Champion, A.C., and Autolite. In 1978, these three companies held over 90% of the spark plug market. In 1983, the market sales had slipped to around 83%. In 1983, foreign imports amounted to around 17% of the market. From 1978 to 1983, the foreign imports had a 10% growth. N.G.K., from Japan, and Bosch, from Germany, hold a great percentage of this market.

In Iowa, we used to send a large percent of the spark plugs that we made to California, where around 14% of all the cars in the U.S.A. are. The Company claims that N.G.K. now sells around 200,000 spark plugs per day on the West Coast. This is around 1 million plugs per week in sales that has been lost to foreign imports. This has had a big effect on the employees here in Iowa and other Champion employees in the United States.

In 1979, Champion had 41% of the market for 4 cylinder cars in the United States. In 1983, this had slipped to 32% of the market. This is a direct tie-in with foreign imports, not only because of the 2.5 million engines to be imported, where just a few years ago there were virtually none. Accordingly to U.S. News and World Report, the U.S. is giving up on small cars. The tie-in is because of the growth of garages that service and repair the foreign cars. When the average person has their car worked on and need new spark plugs, they will tell whoever works on it to replace whatever part that is needed with what was put in the car under the original equipment. We lose out again, because most of our sales are in the replacement market. In a number of large cities on the East Coast and in the Mid-West there are tune-up shops that have tune-up specials for spark plugs, points, etc. These shops, by a big majority, use Bosch spark plugs from Germany, which are cheaper than Champion because of the difference between the German mark and the strong American dollar. This is hurting our replacement market, and has resulted in a loss of jobs here in Iowa.

Champion has both a ceramic and assembly plant in Mexico. In fact, the Company has sent a number of machines from our assembly plant to Mexico. Mexico has a content law. At one time, we used to send parts of a spark plug to be assembled in Mexico, but after a few months the government of Mexico said we had to cut the order in half. Then, very shortly, they said that we could no longer send the parts in. They said if Champion was going to sell there, they had to build there. The assembly plant in Mexico at this time, is having trouble with their shell extruders. Champion has a plant in Windsor, Canada, and at this time, because of the Mexican content law, Canada sends 1 million extruded shells to Mexico and exchanges them for 1 million insulators. These insulators could have been made here in Iowa.

The amount of sales that have been lost over the past few years has resulted in about 50% less workers in Champion plants. It has forced Champion to close a ceramic plant in Burlington, Iowa, in 1981, close an assembly plant in Hellertown, Pennyslvania, in 1982, and also an assembly plant in Toledo, Ohio in 1984. the employees that we in the U.A.W. represent have gone from 4,500 in 1978 to around 2,100 in 1984. In every case, when we in the U.A.W., talked to the Company about the lay-off of employees and the closing of the plants, the Company always said it was because of foreign competition, and it is a real problem with Champion.

In conclusion, we must have legislation to put the parts supplier and other American workers in a fair position with other workers. We need content legislation to put us on the same ground. We need House File 1234 and the enactment of S. 707. We need an industrial policy to put Americans back to work. We need to manufacture the products here, not send out all our natural resources and import the finished product.

Mr. Chairman, we thank you for the opportunity to testify on behalf of the U.A.W. in support of the proposed Fair Practices in Automotive Products Act. We urge members of this Committee and Senate to support S. 707.

Thank you.

The CHAIRMAN. Thank you. You have been most patient this morning as we have gone through the other panels. I appreciate you waiting this long. Mr. Stewart.

## STATEMENT OF BILL STEWART, ASSISTANT DIRECTOR, UNITED AUTO WORKERS, REGION NO. 4

Mr. STEWART. Chairman Packwood, Senator Riegle, I am Bill Stewart, assistant director of region 4 of the International Union, UAW, covering Illinois, Iowa, and Nebraska. I do appreciate this opportunity to testify before the committee on behalf of the UAW, its members, and their families about S. 707.

I urge this committee and Congress to proceed swiftly to enact this proinvestment, projobs legislation.

There are some that say we no longer need S. 707. Nothing could be further from the truth. The auto companies employ 22 percent fewer production workers than they did 6 years ago. More to the point of S. 707, they are now making long-term plans to supply the United States with a rapidly increasing volume of imported small cars and components.

In the current auto recovery, profits have soared, and employment continues to lag. Without this legislation, the potential profits for jobs will diverge even more widely as the U.S. companies bring in even more imports.

We stand on the verge of losing our capacity to manufacture and assemble small, fuel-efficient cars in the United States. General Motors has already announced plans for its U.S. dealerships to sell annual imports of 100,000 Suzukis, 200,000 Isuzus from Japan, 80,000 to 100,000 Daewoo cars from Korea, and 200,000 U.S. assembled cars with 50 percent imported value from Toyota.

Ford plans to import in the coming years at least 160,000 cars from Mexico and Europe. Chrysler, too, is considering a major hike in the imports that can spell trouble for our Belvidere Omni/Horizon plant.

We predict the sales of compact cars will number 4.2 million by 1990. The current plans of the American auto companies leave little assurance that they will build more than 900,000 of those subcompact cars in this country by 1990.

As a result, U.S. imports of subcompacts will rise from 1.4 million in 1983 up to 3 million in 1990 if Congress does not enact the content legislation. The U.S. Government should not permit them to abandon the small car production just because companies expect to make higher profits by bringing in imports.

Enactment of this bill would create or preserve over 1 million American jobs by retaining U.S. small car capacity. We know there will be fewer auto workers in the future. This legislation means the difference between serious managerial job losses and the catastrophic employment drop.

We have heard a lot about retaliation today. The Japan lobby and its allies have been doing a lot of talking about that, especially in this neck of the woods because we are an agricultural area.

I am told that Nissan, they make Datsuns, was actually a sponsor of the Soybean Expo in 1982, and they offered free trucks and free trips to Japan for the top recruiters for the American Soybean Association's membership drive.

They are trying to divide the workers of the auto plants and the auto suppliers and the ag workers in Illinois and Iowa and Nebraska from the farmers of our great agricultural region.

They are trying to trick people into thinking that it's car imports or farm exports when the real issue is whether we can have a strong economy with both. Predictions of retaliation cannot be supported.

I said it before: Every country in the world that has a major auto production restricts auto imports except the United States of America.

When other countries have imposed stiff restrictions or raised their domestic content levels for autos, Japanese countries have not only complied, they have cooperated.

As I said earlier today, Japan has never filed a GATT complaint over any of those actions. More importantly, Japan has continued to increase its trade with those countries. Between 1978 and 1983, Japan has increased substantially its imports from every country that has a large auto market severely restricted to Japanese exports; Australia up 25 percent, France up 73 percent, Italy up 49 percent, United Kingdom up 41 percent, Mexico up 431 percent, Brazil up 112 percent.

I think it's high time this Nation stop playing the role of a good-natured wimp when it comes to trade and trade restrictions and trade agreements. We played the patsy while every other country in the world has restricted our products and our exports, and it was done under the guise of free trade when, in fact, free trade is nonexistent, nothing but a one-way street, restricts our trade, and plays us for a patsy.

I fail to follow the mentality of a Nation that is more than willing to spend $1.6 trillion on defense to defend us militarily when we already have enough military hardware to kill everybody in the world six times, and yet we are unprepared to defend our economic base.

I want to thank you for this opportunity to testify here today. On behalf of the UAW members, both in Iowa, Illinois, and Nebraska, and we do have almost 15,000 jobs in this State that are directly related to the auto industry. Thank you very much.

[The statement follows:]

## STATEMENT OF BILL STEWART, ASSISTANT DIRECTOR, REGION 4, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICAN, UAW

Chairman Packwood, Senator Riegle, I am Bill Stewart, Assistant Director of Region 4 of the International Union, UAW, covering Illinois and Iowa. I appreciate this opportunity to testify before your Committee on behalf of the UAW, its members and their families about S. 707, the proposed Fair Practices in Automotive Products Act. I urge this Committee and the Congress to proceed swiftly to enact this pro-investment, pro-jobs legislation.

Some say we no longer need S. 707. The news about higher auto sales, profits, and executive bonuses leads them to believe that everyone in the industry is doing fine. Nothing could be further from the truth. The auto companies employ 22 percent fewer production workers than they did six years ago. More to the point of S. 707, they are now making long-term arrangements to supply the U.S. with a rapidly increasing volume of imported small cars and components.

We believe auto companies with large volume sales here should be investing and creating jobs here. Polls show most Americans agree with us. Editorials by both Business Week and Automotive News have supported the concept of domestic auto local content.

In the current auto recovery, profits have soared, but employment continues to lag. Wall Street analysts predict that the auto companies this year will double the profits made in 1978. But we project hourly employment at 78 percent and sales at 86 percent of their respective 1978 levels. Without S. 707, the trends for profits and for jobs will diverge even more widely as the U.S. companies bring in more vehicle and parts imports.

The auto companies today employ 572,000 hourly workers—a reduction of 163,000 jobs since 1978. That 22 percent reduction in hourly auto jobs gives a more accurate picture of the employment situation than the 5 or 6 percent "auto unemployment rate" computed by the Bureau of Labor Statistics.

The BLS statistic also cannot reflect the great financial and personal hardships experienced by jobless auto workers. A Cornell University study of the closing of the Ford assembly plant in Mahwah, New Jersey found that median income of the 5,000 workers fell more than 50 percent in the two years after the shutdown.

More recently, a survey in New England of laid-off UAW members found that their average length of joblessness was 34 weeks. Average individual earnings had dropped more than 55 percent to $151 per week. One-quarter had exhausted all savings. While previously all had employer-paid health insurance, at the time of the survey nearly one-quarter had no coverage whatsoever.

An in-progress survey of unemployed Michigan auto workers suggests even more severe hardships here in the Midwest than the New England study revealed. Based on the first 136 interviews, that survey reveals a longer average length of joblessness (22 months), a steeper earnings drop (69%), and more widespread exhaustion of savings. It also finds that one-fifth of the job losers had over 20 years' seniority at the time of layoff, and that half had no health insurance at all at the time of the survey.

We stand on the verge of losing most of our capacity to manufacture and assemble small, fuel-efficient cars in the United States. The overwhelming majority of those autos in the near future may be manufactured abroad and sold in this country through the existing dealer networks.

The 1975 law that established the auto fuel efficiency standards that have doubled the miles per gallon of the average new car included a very wise requirement that the U.S. companies meet the fuel efficiency averages with cars made domestically. As a direct result, when the second oil crisis hit in 1979, the U.S. companies were phasing in sustantial new capacity to produce small, fuel-efficient vehicles. U.S. production of subcompact cars rose 66 percent between 1978 and 1983, from 1.2 million to 2.0 million, and during those same five years, the U.S. companies sharply curtailed their own imports of subcompact cars. The second oil crisis would have had an even more devastating effect on the industry but for the capacity added due to the 1975 law.

But now the Big Three are scheduling massive increases in vehicle imports. GM has already announced plans for its U.S. dealerships to sell annual imports of 100,000 Suzukis and 200,000 Isuzus from Japan, 80 to 100,000 Daewoo cars from Korea, and 200,000 U.S.-assembled cars with 50 percent imported value from Toyota. These 550,000 new subcompact introductions far exceed GM's annual deliveries of Chevettes and T-1000s which GM has made with over 90 percent U.S. content since 1975. In addition, GM will import from Mexico 60,000 vehicles with a truck bed on an intermediate-size car body. Together these new imports would represent ten percent of GM vehicle sales in this country last year.

Nor is GM alone in making a big turn toward imported vehicles. Ford plans new imports in coming years of at least 160,000 small cars from Mexico and Europe. Chrysler too is considering a major hike in its imports and that could spell trouble at our Belvedere Omni/Horizon plant.

We predict that sales of subcompact cars will number 4.2 million by 1990, but the current plans of the auto companies leave little assurance that they will build more than 900,000 of those 4.2 million subcompacts in this country by 1990. As a result, U.S. imports of subcompacts could rise from 4.1 million in 1983 to 3.0 million in 1990 if Congress does not enact domestic content legislation.

A key point is often overlooked in discussions about the future of small car production in this country: the companies are currently ringing up record profits even as they make all of their small cars here. The assumption underlying the 1975 fuel efficiency law has been fulfilled: the auto companies can remain profitable overall even if they make less profit on more fuel efficient cars. The U.S. government should not now permit them to abandon most small car production just because the companies expect to make even higher profits with imports.

The auto industry should be one of America's strongest, in light of its technology, R&D linkage, modern marketing, and strong local companies. Yet paradoxically, the auto industry presents the U.S. with by far its biggest industrial problem. Our $19.6 billion trade deficit in auto (excluding our trade with Canada) represented nearly two-thirds of our total deficit of $31 billion in manufactured goods last year.

It's not hard to see where the auto trade deficit came from. The auto industry has played a prominent part in the industrialization schemes of Europe, Japan, and the newly industrializing countries. Nothing like "free trade" occurs in the auto industry around the world. Over 30 countries have local content laws. For decades, they have severely limited auto imports. This not only reduced potential U.S. auto exports, but induced U.S. companies to produce abroad. More recently, many of these other countries have promoted auto exports. With every potential export market relatively closed, the exports end up here.

While others act to keep auto, our government effectively discourages auto production here, permitting badly misaligned exchange rates and tax rules on trade to further erode the industry, while doing nothing to attract or even retain auto investment.

The UAW and the U.S. auto companies do not have the same perspective on the problems of the domestic auto industry. We are concerned about production and employment here where we live and work. The companies can earn profits whether they supply this market with autos made here or abroad. They have no particular allegiance to production in the U.S. for this market. They already have substantial production facilities abroad and are prepared to produce for this market wherever they find it most profitable.

The domestic content legislation is pro-investment and pro-competition. By insuring substantial investment, the bill addresses our concern for preventing a rapid erosion of auto-related employment. By assuring competition among the major auto companies, it will keep down prices while continuing progress in product and production technology.

S. 707 is designed to stabilize production in the domestic industry while promoting competition among the auto companies. All companies selling more than 100,000 vehicles a year here would have to achieve a minimum average domestic content ratio. The content ratio is based on a company's U.S. auto-related costs as a proportion of its U.S. sales. From model year 1987 onward, the content percentage (up to a maximum of 90 percent) is derived by dividing sales by 10,000. For example, sales of 355,000 would entail a 35.5 percent content requirement.

Both domestic- and foreign-based auto companies can comply with the legislation. In practice, the bill would prevent five companies (GM, Ford, Chrysler, AMC/Renault, and Volkswagen) from drastically reducing their production and purchases in the U.S. In addition, it would cause substantially greater domestic production and purchases by five others (Toyota, Nissan, Honda, Mitsubishi, and Mazda).

The Big Three U.S. auto companies, GM, Ford, and Chrysler stated in testimony last year that their operations exceed the required 90 percent. The current operations of both AMC-Renault and Volkswagen also put them well above their respective content requirements. With four years to phase in greater domestic operations and purchases, the remaining five companies can easily maintain if not increase their sales. They can move quickly into U.S. facilities, as VW did in Pennsylvania and as Toyota is doing in California. With recent advances in computer-aided production technology, they can assemble several different vehicles along the same assembly line. U.S. producers can readily supply virtually all parts.

Recent actions by Toyota, Nissan, Honda, and Mazda prove two critical points about the Japanese auto companies. First, the current modest U.S. production commitments would not have been made if, as some have worried, these companies had any intention of pulling out of the large, lucrative U.S. market. Second, it's clear that they do respond to pressure from the U.S. government. Over the last few years, that pressure has come in the form of House passage of domestic auto content legislation.

While welcome, the announced plans of the five major Japanese companies remain very inadequate. They have invested primarily in assembly plants that, in the absence of domestic content legislation, will rely heavily on imported components. As a result, when their plants become fully operational here, the domestic content of all vehicles sold here by the Japanese companies will still average only about 10 to 15 percent. S. 707 would raise that average up to roughly 50 percent.

Enactment of S. 707 would create or preserve over a million American jobs by retaining U.S. small car capacity. That includes 660,000 jobs at auto companies and their suppliers, plus many more due to ripple effects. We know there will be fewer auto workers in the future. But this legislation means the difference between serious but managerable job losses, and a catastropic employment drop.

Maintaining U.S. production of small, fuel-efficient vehicle and parts will not cost this economy jobs, as opponents have alleged. Employment at dealerships should not be affected just because more of the vehicles they sell are built here rather than imported. In the case of trucking, the number of vehicles shipped to dealers should stay the same, but the volume of parts shipped within the U.S. for assembly here would be higher. Finally, auto-related jobs on the docks should be little changed, since increased exports and imports of parts should largely offset the effect of lower vehicle imports.

What about so-called retaliation? Some critics of S. 707 argue that its enactment would lead to retaliation against U.S. exports, particularly by Japan, thereby nullifying the gains to auto-related industries.

The Japan lobby and its allies have been doing a lot of talking about that in this neck of the woods. I'm told that Nissan—they make Datsuns—was actually a sponsor of Soybean Expo 1982, and that they offered free trucks and trips to Japan to the top recruiters for the American Soybean Association's membership drive.

They're trying to divide the Firestone workers at Des Moines from the Deere workers at Waterloo from the farmers of our great agricultural region. They're trying to trick people into thinking that it's cars or farm exports, when the real issue is whether we're going to have a strong economy with both.

The prediction of retaliation cannot be supported by a careful analysis of auto policies around the world, of the political/diplomatic nature of the General Agreement of Tariffs and Trade (GATT), or of Japan's trade patterns.

In contrast to the ill-conceived 1930 Smoot-Hawley bill, S. 707 applies to a single industry which, according to all industry experts, stands in jeopardy of serious import injury. The U.S. would not be "firing the first shot in a trade war"; we'd be the last to raise a shield. Finally, it does not isolate the American economy, but in fact integrates foreign companies into the U.S. economy over a reasonable four-year period.

What S. 707 would do is quite modest. The American companies would have to shelve some of their plans to bring in a flood of imports. Some of the major Japanese companies would have to devote somewhat more resources to U.S. production and purchases than their announced plans indicate.

When other countries have imposed stiff auto restrictions or raised their domestic content levels for auto, Japanese companies not only complied, they cooperated. Japan has never lodged a GATT compliant over any of those actions. Most importantly, Japan has increased substantially its imports from every country that has a large auto market and has severely restricted Japan's auto exports. For example, between 1978 and 1983, Japan hiked its imports from Australia by 25 percent, from

France by 73 percent, Italy by 49 percent, the U.K. by 41 percent, Mexico by 431 percent, and Brazil by 112 percent.

But here's the key. Japan can take action against the U.S. only by shooting itself in the foot. In the first place, Japan buys from the U.S. only what it cannot make for itself—raw materials and products using technology it does not yet have. Let's take the case of two of Iowa's major exports to Japan, soybeans and feed corn. During the last Republican Administration in the early 1970s, the U.S. stupidly put an embargo on our soybean exports to Japan. At that time Japan depended on the U.S. for almost 90 ercent of its soybeans so it made a big effort to diversify its sources of soybeans to protect itself against any future embargo. Despite those efforts, Japan depends more on U.S. soybeans than ever before. Last year 93 percent of its imported soybeans came from us. Japan depends even more heavily on us for feed corn. They import 99.7 percent of their feed corn from us.

Let's take another agricultural case study, this time of a country that has cut back on Japanese auto exports. To preserve its national auto industry, Argentina has imposed a 90 per cent cut in auto imports from Japan since 1980. Faced with that drastic action, what has Japan done to its imports of agricultural products from Argentina? Japan actually increased agricultural imports from Argentina by five-fold, going from $82 million in 1980 to $408 million in 1983.

In a few cases Japan can buy products from other countries instead of the U.S. But those countries already have auto policies far more restrictive to Japanese auto imports than the proposed U.S. legislation—Australia, Argentina, Brazil, and Indonesia for foodstuffs and raw materials; and European countries for manufactured goods. Far from retaliating against all these very restrictive countries, Japan has increased its imports from all of them. Why would Japan retaliate against modest U.S. auto content legislation and buy more countries with auto policies which limit their exports even more severely than would S. 707?

The auto industry stands at a crossroads. If the government fails to act, the auto companies will reverse the progress we've made in creating U.S. capacity for small, fuel-efficient vehicles. The U.S. companies, particularly GM, are planning to supply their U.S. dealer networks with a vastly growing supply of vehicles and parts from their facilities abroad. If the government permits those plans to be carried out, the U.S. economy and its workers will suffer even if company profits and executive bonuses don't.

The time has come, therefore, for the U.S. government to decide whether it will maintain a competitive auto industry. Enactment of S. 707 would be evidence of that decision. It would prevent further massive erosion of U.S. auto-related jobs. It would curb the alarming rise in foreign sourcing by U.S. companies, while inducing foreign-based companies to invest and compete here. Because of the magnitude of the industry and the ripple effect on supplies and spending, the bill would create and preserve well over a million additional jobs in the U.S. economy by 1990.

Mr. Chairman, again I appreciate this opportunity to testify on behalf of the UAW in support of S. 707. Thank you.

## AUTO'S CENTRALITY TO THE ECONOMY

The auto industry, depending on where it is in the general business cycle, provides about: 800,000 core auto jobs; 1,800,000 core auto and manufacturing supplier jobs; and 5,000,000-plus total U.S. jobs.

That means auto and its manufacturing suppliers contribute: nearly 10% of all U.S. manufacturing jobs.

When other auto-related jobs are added in: over 7% of all jobs in the private nonfarm economy are tied to auto.

### AUTO'S CONTRIBUTION TO U.S. EMPLOYMENT

[All figures in thousands]

| Year | Core auto jobs (SIC 371) | Auto and manufacturing supplier jobs (SIC 371×(1+1.26))[1] | All auto-related jobs (SIC 371×(1+5.5))[2] | Jobs in all manufacturing | Jobs in total private nonagricultural economy | (1) as percent of (4) | (2) as percent of (4) | (3) as percent of (5) |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 1977 | 947 | 2,140 | 5,682 | 19,682 | 67,344 | 4.81 | 10.87 | 8.44 |
| 1978 | 1,005 | 2,271 | 6,532 | 20,505 | 71,026 | 4.90 | 11.08 | 9.20 |
| 1979 | 990 | 2,237 | 6,435 | 21,040 | 73,876 | 4.71 | 10.63 | 8.71 |

## AUTO'S CONTRIBUTION TO U.S. EMPLOYMENT—Continued

[All figures in thousands]

| Year | Core auto jobs (SIC 371) (1) | Auto and manufacturing supplier jobs (SIC 371×(1+1.26))[1] (2) | All auto-related jobs (SIC 371×(1+5.5))[2] (3) | Jobs in all manufacturing (4) | Jobs in total private nonagricultural economy (5) | (1) as percent of (4) (6) | (2) as percent of (4) (7) | (3) as percent of (5) (8) |
|---|---|---|---|---|---|---|---|---|
| 1980 | 789 | 1,783 | 5,128 | 20,285 | 74,166 | 3.89 | 8.09 | 6.91 |
| 1981 | 789 | 1,782 | 5,127 | 20,170 | 75,126 | 3.91 | 8.83 | 6.82 |
| 1982 | 690 | 1,560 | 4,485 | 18,848 | 73,842 | 3.66 | 8.28 | 6.07 |
| 1983 | 758 | 1,713 | 4,927 | 18,678 | 74,234 | 4.06 | 9.17 | 6.64 |
| 1984 [3] | 850 | 1,921 | 5,525 | 19,600 | 77,000 | 4.34 | 9.80 | 7.18 |

[1] Based on BLS direct multiplier of 2.36, reduced to 1.26 by removal of nonmanufacturing industries. Source: "BLS Employment Requirements Table, 1979" (mimeo).

[2] Based on CBO macro multiplier of 5.5. Source: "H.R. 5133: An Economic Assessment," August 1982.

[3] Estimated.

Sources: 1977–81: U.S. BLS, "Supplement to Employment and Earnings," July 1983. 1982–83: "Employment and Earnings," March 1983 and March 1984.

### CURRENT STATUS OF THE U.S. AUTO INDUSTRY

Sales of domestic new cars have been running at an annual rate of roughly 8.2 million but, as expected, are slipping toward an 8.0 million rate for the full year, compared to 1978's 9.2 million. Domestic truck (including vans) sales are forecast at 3.3 million for 1984, compared to 1978's 3.9 million.

U.S. car and truck output in the first five months of 1984 trailed 1978 by only 12%. However, since production in the U.S. in the January-May period was at an annual rate of nearly 12 million vehicles, compared to expected 1984 full year domestic sales of only 11.3 million, some decline in employment is likely in the months ahead.

The voluntary restraints on Japanese car imports are clearly binding, at long last. So far in 1984, the import share (cars) stands at 22.3%, still well above its 18.4% 1978 share, but down significantly from the 26–28% range that prevailed in 1980–83.

## JANUARY–MAY RETAIL AUTO SALES IN THE UNITED STATES

|  | 1984 | Percent | 1983 | Percent | 1978 | Percent | Percent change— |  |
|---|---|---|---|---|---|---|---|---|
|  |  |  |  |  |  |  | 1984/1983 | 1984/1978 |
| Cars: |  |  |  |  |  |  |  |  |
| Domestic | 3,518,973 |  | 2,666,881 |  | 3,820,559 |  | +32 | −8 |
| Japanese | 764,365 | (16.9) | 792,147 | (21.7) | 585,296 | (12.5) | −4 | +31 |
| European | 243,199 |  | 186,792 |  | 277,065 |  | +30 | −12 |
| Imported | 1,007,564 | (22.3) | 978,939 | (26.8) | 862,361 | (18.4) | +3 | +17 |
| Total | 4,526,537 |  | 3,645,820 |  | 4,682,920 |  | +24 | −3 |
| Trucks: |  |  |  |  |  |  |  |  |
| Domestic | 1,496,507 |  | 1,022,149 |  | 1,633,851 |  | +46 | −8 |
| Japanese | 241,831 | (13.9) | 169,699 | (14.2) | 129,425 | (7.3) | +43 | +87 |
| Total | 1,738,338 |  | 1,191,848 |  | 1,763,276 |  | +45 | −1 |
| Total domestic | 5,015,480 |  | 3,689,030 |  | 5,454,410 |  | +36 | −8 |
| Total imported | 1,249,395 |  | 1,148,638 |  | 991,786 |  | +9 | +26 |
| Total Japan | 1,006,196 |  | 961,846 |  | 714,721 |  | +5 | +41 |
| Grand total sales | 6,264,875 |  | 4,837,668 |  | 6,446,196 |  | +29 | −3 |

## JANUARY–MAY EMPLOYMENT IN THE UNITED STATES

| | 1984 | 1983 | 1978 | Change— 1984/1983 | Change— 1984/1978 |
|---|---|---|---|---|---|
| Hourly employment at U.S. auto companies, including VW, Nissan and Honda (May): | 572,000 | 488,000 | 735,000 | +84,000 | −163,000 |

### BIG THREE VEHICLE SOURCING

So far, vehicle outsourcing is modest—about 220,000 of the 11 million new cars and trucks the Big Three expect to sell in the United States in 1984 will be produced overseas. That's about $1.54 billion worth and, since each $40,000 in imports means one less U.S. job, the United States lost 38,500 jobs to those captives. By 1987–88, if the companies' plans cannot be reversed, the figure will be about 1,000,000 vehicle-equivalents, worth about $7 billion, thus costing the United States 175,000 jobs.

| | Type of vehicles [1] | Approximate annual number of units | To begin |
|---|---|---|---|
| 1984 captives: | | | |
| GM (Isuzu trucks and cars [2]) | Small vehicles | 50,000 | |
| GM (Suzuki) | Small car | [3] 20,000 | |
| Chrysler (Mitsubishi) | Small vehicles | 140,000 | |
| Chrysler de Mexico | Midsize car | 10,000 | |
| Planned (confirmed): | | | |
| GM–Isuzu | Medium truck | 1,000 | 1984 |
| GM–Isuzu | Small car | [2] 200,000 | 1984 |
| GM–Suzuki | Small car | [3] 100,000 | 1984 |
| GM–Daewoo | Small car | 80–100,000 | 1987 |
| GM de Mexico | Car pickup | 30,000 | 1984 |
| Ford (Toyo Kogyo parts) | Small car (Mexico) | 130,000 | 1986 |
| Ford—Ford of Europe | Midsize car | 60,000 | 1985 |
| Chrysler de Mexico | Midsize car | 25,000 | 1984 |
| Under consideration: [4] Chrysler (S. Korea or Taiwan) | Small car | 100,000 | 1987 |

[1] The list above does not include joint ventures.

[2] Held to about 35,000 in 1984 by VRA with Japan. Sold as Chevy Spectrum.

[3] Held to about 20,000 in 1984 by VRA with Japan. Sold as Chevy Sprint.

[4] Also rumored are: (1) a U.S. Toyo Kogyo assembly plant producing 260,000 units per year by 1987, about half for Mazda dealers and half for Ford dealers; (2) a Mitsubishi plant in California producing the Colt/Champ successor; and (3) a sourcing change for Apex, the Escort/Lynx successor, by 1991.

Sources: Wall Street Journal, June 15, 1984; Detroit Free Press, March 7, 1984; Automotive News, April 23 and June 18, 1984; and Business Week, March 12, 1984.

## PARTIAL LIST OF REPORTED COMMITMENTS BY U.S. BIG THREE TO PURCHASE FOREIGN-MADE COMPONENTS FOR USE IN DOMESTIC NAMEPLATE VEHICLES

| Componet | Source | Approximate number per year |
|---|---|---|
| GM: | | |
| 2.8 liter 6 cyl | GM de Mexico | 400,000 |
| 2.0 liter 4 cyl with transmission | Isuzu (Japan) | 100,000 |
| 1.8 liter diesel 4 cyl | Isuzu | (1) |
| 1.3 diesel 4 cyl | Isuzu | NA |
| 1.8 liter 4 cyl | GM de Brazil | 250,000 |
| THM 180 automatic transmission | GM Strasburg (France) | 250,000 |
| Manual transmissions | Isuzu | 200,000 |
| Ford: | | |
| 4 cyl engines | Ford-Mexico | NA |
| 2.0 liter 4 cyl diesel | Toyo Kogyo | 40,000 |
| 2.3 liter 4 cyl | Ford-Brazil | 40,000 |

## PARTIAL LIST OF REPORTED COMMITMENTS BY U.S. BIG THREE TO PURCHASE FOREIGN-MADE COMPONENTS FOR USE IN DOMESTIC NAMEPLATE VEHICLES—Continued

| Componet | Source | Approximate number per year |
|---|---|---|
| 2.4 liter 6 cyl | BMW (Germany) | (¹) |
| Manual and automatic transaxles | Toyo Kogyo | 500,000 |
| Aluminum cylinder heads | Europe, Mexico | NA |
| Accessory motors | Ford-Singapore | NA |
| Electronic engine control devices | Tashiba | 100,000 |
| Ball joints | Musashi Seimibu | 1,000,000 |
| C3 transmissions | Ford-France | 55,000 |
| Hummer transmissions | Ford-Germany | 18,000 |
| Tremec transmissions | Mexico | 96,000 |
| Trim and windshields | Mexico | NA |
| Chrysler: | | |
| 6 and 8 cyl engine | Chrysler de Mexico | 100,000 |
| 2.2 liter 4 cyl | Chrysler de Mexico | 200,000 |
| 4 cyl engines | Mitsubishi (Japan) and Peugeot (France). | 250,000 |
| CV joints | U.K. and Spain | 1,900,000 |
| Wiring harnesses | Chrysler de Mexico and Taiwan | 2,300,000 |
| Alternators and starters | Germany and Japan | 1,400,000 |
| Bearings | Italy and Japan | 2,000,000 |
| Cylinder heads | Brazil and Italy | 1,000,000 |

[1] Small numbers.

NA = Figures not available.

Sources: Automotive News, Ward's Engine Update, Ward's Automotive Reports, American Metal Market, Detroit Free Press, Detroit News, Japan Economic Journal, and Journal of Commerce.

### AUTO PRICE HIKES TRAIL INFLATION

Despite repeated statements to the contrary, when rebates and quality changes are taken into account and when considering a constant mix according to size and other characteristics, since 1978 price hikes for both domestic and imported cars have been extremely moderate, consistently below overall inflation. This has been particularly true in the case of small cars: the restraints have been accompanied by increased small car competition among domestic producers.

### PERCENT CHANGE IN CPI–U

| | New cars | All items |
|---|---|---|
| March 1978–March 1979 | 7.6 | 10.3 |
| March 1979–March 1980 | 8.0 | 14.6 |
| March 1980–March 1981 | 4.2 | 10.5 |
| March 1981–March 1982 (1st restraint year) | 6.3 | 6.8 |
| March 1982–March 1983 (2d restraint year) | 3.5 | 3.6 |
| March 1983–March 1984 (3d restraint year) | 3.0 | 4.7 |
| March 1981–May 1984 (Since restraints) | 13.5 | 16.8 |

This is not to say that the U.S. companies shouldn't exercise price restraint and even cut prices on some models. Their high profits and the incomplete sales recovery both suggest they should.

Allegations that enactment of S. 707 would send prices soaring are based on the erroneous assumption that the law would function as a tight, rigid quota, rather than a flexible inducement to compete with more investment.

The CHAIRMAN. Mr. Zagnoli?

## STATEMENT OF JOSEPH M. ZAGNOLI, FIELD REPRESENTATIVE, UNITED RUBBER WORKERS

Mr. ZAGNOLI. It should be quite obvious why we are here. The automobile goes nowhere without the tire, nor would it last very long without the rubber stripping. To allow unchecked imports is to say we do not need a strong industrial base to provide for an economy that we may all prosper from.

Right here in Iowa, a State not known as an industrial State but as a farming State, you will find thousands of jobs dependent upon the automobile. You will also find many small farmers by necessity working in the industrial plants, and that may well address itself to the whole that Senator Riegle brought forward in this hearing and Senator Jepsen shoved it off as just as polls, polls, polls.

That may be why the poll reads that there are many farming individuals interested in this type of legislation and supports this type of legislation, because they have been dependent upon their job in the city to survive, not only for them themselves but also for their children, because there is not sufficient room on the farm for the children to stay there and farm with their parents. They must go find jobs elsewhere.

A lot of those jobs they have found in order to survive have been in the industrial base of the State of Iowa. If you think this State can survive without some type of an industrial base, well, those who think that way are certainly kidding themselves because we do need those industrial jobs, and many of those industrial jobs are related directly to the manufacturing of the automobile.

One automobile is five tires. One automobile is 50 to 60 feet of rubber weather stripping. Both of those items are made right here in Iowa.

This is not our first time that we have sought to curb import. Back in the 1950's we started with a rubber heel, which the shoe is a form of transportation, I might add, and then went to the sole, then the shoe, and all of our efforts have been very unsuccessful.

We have lost 70 percent of the shoe industry to the imports. I don't think we can stand by and lose 70 percent of the automobile industry.

You are talking about one of our basic industries here. It has been mentioned here earlier in the testimony that we are not going to subsidize, that is protectionism, words such as that.

Shielding, Senator Jepsen used the word shield. Well, you shield yourself from taxes. What we are doing here today is saving our industry and saving our jobs, which are vitally important to all of us.

In order to maintain our jobs, are we going to have to work for the same wages as they do in Korea? Have our working conditions reduced to that of sweat shops? High tech, will they provide jobs for us?

There is a lot of conversation about high tech being our savior. Well, if the high tech jobs are with a company such as Atari, then we would have to follow those to Taiwan.

If we take high tech, it will help preserve our jobs but only if applied to our existing industrial base. This can only be done under a policy of fair trade, not a policy of high interest rates and expensive U.S. dollars and the unrestricted imports we have now.

This industry has to have some time to breathe in order to bring this high tech on line. We may say they should have done it back in the early 1970's, but that did not happen. They did not put the money into the management—this country did not put the money in the 1970's that they should have in new technology. That may be part of the problem we have today.

That is past history. We are talking about today. The industries have to have some room to move. They have to have breathing room. This type of legislation will give us that necessary breathing room, and with that breathing room there is no question in my mind that we will be able to compete with any nation in this country, given the same type of equipment, and we will give them the handicap of that is subsidized by their governments which is causing us a great amount of problems.

If the domestic auto industry is to collapse, then so goes the rubber industry. We have lost other industries by imports. We certainly don't want to stand by now and lose the auto industry.

As I said, one automobile is five tires, 50 to 60 feet of rubber weather stripping. Just for the 1983 imports alone, from 1983, you are talking about 12 million tires, 120 million feet of weather stripping, and 20 million pounds of padded products.

Those lost tires and that lost poundage in weather stripping would directly relate to jobs in this State of Iowa, which is not known as an industrial State but as a farming State, but we must have an industrial base here in Iowa in order for this State to survive because certainly there is not room for everybody to grow soybeans, nor be a Senator. Thank you.

[The statement follows.]

### STATEMENT OF JOSEPH ZAGNOLI, INTERNATIONAL REPRESENTATIVE, UNITED RUBBER, CORK, LINOLEUM & PLASTIC WORKERS OF AMERICA

Mr. Chairman and Members of the Committee, I am Joseph Zagnoli, International Representative for the United Rubber Workers of America, here before this Committee to express the concerns we have in regard to the imports of automotive products.

To allow unchecked imports, is to say we do not need a strong industrial base to provide for an economy that we may all prosper from. Here, in Iowa, a state not known as an industrial state, but as a farming state, you will find thousands of jobs dependent upon the automobile. Also you will find many small farmers, by necessity, working in our industrial plants. In Iowa the U.R.W. represents six manufacturing plants, four of those plants are major employers in their respective communities where you will find some 4,000 jobs, all working with rubber and plastic in the production of tires, weather stripping and padded products related to the automobile.

We who ask for fair trade are referred to as protectionist. That term may make sense to those who profit by allowing unchecked imports, however, it is not understandable to those of us that have staked our lives and the well being of our families in the rubber industry.

For the Rubber Workers to seek curbs on imports is not new. We called for cutting down on imports of rubber heels, soles and shoes starting in the 1950's. We have been unsuccessful and now 70% of the shoes sold in the United States are imported (and very expensive, I might add). Is this the fate of the automobile?

In order for us to maintain our jobs, will we have to work for the same wages as in Korea? Will our working conditions be reduced to that of an overseas sweat shop? Will High Tech jobs provide needed employment? If the High Tech jobs are with a company such as Atari, then we would have to follow them to Taiwan.

High Tech will help preserve our jobs only if applied to our existing industrial base. This can only be done under a policy of fair trade, not a policy of high interest rates, expensive U.S. dollar and unrestricted imports as we have now. To follow such is to insure the destruction of the automobile industry, one of the strongest of our industrial bases.

We the United Rubber Workers, ask not for protectionism but for fairness. We recognize that we must have trade with other nations and we must help other countries develop their economy. However, our economic policy should not be geared to penalizing the American worker. For instance, Japan has become a strong force in the world economy. It should no longer be treated as a step-child of the United States.

Domestic Content Legislation is needed. If nothing is done by 1990 the import share has been predicted to be as much as 60% by the National Academy of Engineering Panel. A projection such as this would mean more jobs lost in the United States and the State of Iowa.

If the domestic auto industry is to collapse, then so goes the rubber industry as well as others. We have given some 70% of the shoe market over to imports. We cannot afford to give up 70% of the auto market.

Had the 2,386,000 cars and the eight thousand trucks that were imported in 1983 been built in the United States, the direct result would have been 5,400 American tire production jobs and two thousand other tire industry jobs. Domestic production would have also generated additional jobs in other rubber and plastic products.

There have been other industries lost to imports, must we stand by now and lose the auto industry? Just 1 automobile has 5 tires, 50 to 60 feet of rubber weather stripping, 8 to 10 pounds of padded equipment as well as other items made of rubber and plastic.

From the 1983 imports, we have lost the production of approximately 12 million tires, 120 million feet of weather stripping, and 20 million pounds of padded products.

This continual give away of our jobs to imports will have a crippling effect even to a state known as a farming state.

Domestic Content Legislation will help to maintain our jobs and prosperous economy for the Nation and the State of Iowa.

Thank you.

## TIRE SHIPMENTS

[In thousands]

| Year | Total domestic shipments | OE | Percent | Replacement | Percent |
|---|---|---|---|---|---|
| Passenger tires: | | | | | |
| 1983 | 177,809 | 43,845 | 24.7 | 133,964 | 75.3 |
| 1982 | 164,520 | 33,981 | 20.7 | 130,539 | 79.3 |
| 1981 | 161,242 | 35,979 | 22.3 | 125,263 | 77.7 |
| 1980 | 141,845 | 34,933 | 24.6 | 106,912 | 75.4 |
| 1979 | 170,110 | 48,188 | 28.3 | 121,922 | 71.7 |
| 1978 | 190,174 | 54,963 | 28.9 | 135,211 | 71.1 |
| Truck tires: | | | | | |
| 1983 | 35,820 | 5,519 | 15.4 | 30,301 | 84.6 |
| 1982 | 32,801 | 4,652 | 14.2 | 28,149 | 85.8 |
| 1981 | 34,185 | 5,732 | 16.8 | 28,453 | 83.2 |
| 1980 | 29,653 | 5,294 | 17.9 | 24,359 | 82.1 |
| 1979 | 38,743 | 9,884 | 25.5 | 28,859 | 74.5 |
| 1978 | 41,904 | 11,922 | 28.5 | 29,982 | 71.5 |

Source: RMA statistical Reports.

## AUTO MARKET PENETRATION

[In thousands]

| | Domestic | Total imports | Total market | Percent | Imports from Japan | Percent | Tires on imported autos (thousands) |
|---|---|---|---|---|---|---|---|
| 1983 | 6,795 | 2,386 | 9,181 | 26.0 | 1,916 | 20.9 | 11,930 |
| 1982 | 5,759 | 2,223 | 7,982 | 27.9 | 1,802 | 22.6 | 11,115 |
| 1981 | 6,208 | 2,328 | 8,537 | 27.3 | 1,859 | 21.8 | 11,640 |

## AUTO MARKET PENETRATION—Continued

[In thousands]

| | Domestic | Total imports | Total market | Percent | Imports from Japan | Percent | Tires on imported autos (thousands) |
|---|---|---|---|---|---|---|---|
| 1980 | 6,581 | 2,398 | 8,979 | 26.7 | 1,906 | 21.2 | 11,990 |
| 1979 | 8,341 | 2,332 | 10,673 | 21.9 | 1,770 | 16.6 | 11,660 |
| 1978 | 9,312 | 2,002 | 11,314 | 17.7 | 1,357 | 12.0 | 10,010 |

Source: MVMA.

## EMPLOYMENT: RUBBER AND PLASTICS INDUSTRY—PRODUCTION AND MAINTENANCE WORKERS

[Thousands of workers]

| Year | Rubber and plastics | Tires and tubes | Fabricated rubber products, NEC | Rubber footwear | Miscellaneous plastics | Reclaimed rubber, hose and belting |
|---|---|---|---|---|---|---|
| 1978 | 591.2 | 92.0 | 90.8 | 21.0 | 368.8 | 18.6 |
| 1979 | 611.8 | 91.6 | 93.2 | 19.9 | 388.3 | 18.8 |
| 1980 | 547.5 | 84.6 | 81.9 | 19.2 | 360.0 | 16.2 |
| 1981 | 569.7 | 81.4 | 82.4 | 18.0 | 371.9 | 16.0 |
| 1982 | 534.7 | 72.4 | 72.3 | 18.4 | 357.3 | 14.2 |
| 1983 | 562.4 | 73.2 | 76.4 | 15.7 | 382.3 | 14.9 |

Source: Employment and earnings.

## IMPORTS AS A PERCENT OF THE U.S. REPLACEMENT TIRE MARKET—PASSENGER CAR, TRUCK AND BUS—1978–1983

[Thousands units]

| Year | Domestic shipments | Imports | U.S. market | IPR (Percent) |
|---|---|---|---|---|
| Passenger car tires (TSUS 772.5105): | | | | |
| 1978 | 135,211 | 12,925 | 148,136 | 8.7 |
| 1979 | 121,922 | 15,160 | 137,082 | 11.1 |
| 1980 | 106,912 | 13,743 | 120,655 | 11.4 |
| 1981 | 125,263 | 17,487 | 142,750 | 12.3 |
| 1982 | 130,539 | 16,993 | 147,532 | 11.5 |
| 1983 | 133,964 | 23,087 | 157,051 | 14.7 |
| Truck and bus tires (TSUS 772.5115) | | | | |
| 1978 | 29,982 | 4,259 | 34,241 | 12.4 |
| 1979 | 28,859 | 4,772 | 33,631 | 14.2 |
| 1980 | 24,359 | 4,255 | 28,614 | 14.9 |
| 1981 | 28,453 | 3,908 | 32,361 | 12.1 |
| 1982 | 28,149 | 3,705 | 31,854 | 11.6 |
| 1983 | 30,301 | 4,525 | 34,826 | 13.0 |

Sources: U.S. general imports, schedule A (FT135), Department of Commerce. RMA tire reports.

The CHAIRMAN. Mr. Clayman.

## STATEMENT OF JACOB CLAYMAN, PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS

Mr. CLAYMAN. Mr. Chairman and Senator Riegle, I testify for the National Council of Senior Citizens. I start with the assumption that S. 707, the domestic content bill, will mean more for jobs for autoworkers who once worked in the industry but who are no longer there, and many of them were senior citizens, by the way.

I further assume that it will stop the hemorrhaging of jobs in that vital industry, an industry so important to America's economic health. I am fearful, have been for a long time, that many of us who always have been employed do not comprehend the meaning of joblessness in our culture. That is a tragic situation.

We, the elderly, have been around for a long time. We have lived through depressions and many recessions. Experience has taught us that joblessness, save and except sickness and family tragedy, is the worst domestic affliction, indeed, scourge, that society can thrust upon us.

A job is the most vital asset that a worker can have in our way of life. Without it, life becomes unbearable, destructive of health, family life, self-respect, indeed, of a very meaningfulness of existence, and this, incidentally, is not just idle chatter.

The bitter fact is that political America has already accepted 8½ million unemployed, and that is only the tip of the iceberg, as routine, commonplace, entirely normal and to be expected, and to me at least in my way of thinking—what a national tragedy.

But why are senior citizens concerned about jobs in the auto industry? The answer is clear. Because, one, thousands of elderly have been forced to retire before they wanted to because of automobile plant closings and layoffs due to the high rate of imports; two, because unemployment in the auto industry and elsewhere has had a gravely damaging impact on social programs affecting senior citizens, such as Social Security, health care, and all the social programs to assist people.

The House Select Committee on Aging reports that for every 1 percent of unemployment, it costs the Social Security system $2 billion a year. Between 1977 and 1982, an average of 7.7 million unemployed cost the Social Security system $74½ billion in lost revenues.

For every 1 percent of unemployment, the Government loses $30 billion in lost taxes, unemployment compensation, medicare, food stamps, et cetera, et cetera, et cetera, and I say how wasteful, how prodigally wasteful, and this goes on and on and on without much attention anywhere, including, incidentally, Congress, and obviously the White House.

The budget, the Congressional Budget Office that has been cited several times today, figures the cost to Government, listen to this, comes to $4,000 a year for each new addition to the jobless rolls. That's extraordinary. It's frightening.

Already the auto industry has lost 170,000 workers to foreign competition and an uncertain economy. Do any of us in this room who haven't been unemployed understand the enormity of this catastrophe?

Let not the industry lose another 196,000 jobs as is projected if nothing is done by the White House and Congress to preserve the industry.

Beyond these facts, let me state the obvious. Old age has given us the privilege of observing and enjoying our children and children's children, and we want for them a life of useful, meaningful employment, that they may find personal fulfillment, and the wherewithal to live out their lives free from want and economic fear.

I urge you to give them their chance. God knows that they deserve it. Government has done little, I say this advisedly, Government has done little these past few years to alleviate personal and societal suffering.

Well, here is a grand opportunity to strike a blow at unemployment. Please do not let the chance go by. Most economies talk about a renewed economic crisis next year and thereafter, and so some don't worry about it in the political world because it won't happen before the election, but it will come inevitably, inexorably. Let's not wait until calamity strikes.

[The statement follows:]

### STATEMENT OF JACOB CLAYMAN, PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS

Mr. Chairman, thank you for giving the National Council of Senior Citizens an opportunity to testify in support of S. 707, the Fair Practices Automotive Products Act. My name is Jacob Clayman. I am the President of NCSC, an organization representing over four million senior citizens through its 4,500 affiliated chapters around the country.

It may seem strange for an organization representing older people to be taking a position on S. 707, but let me assure you that passage of this bill will have a direct, beneficial impact upon every federal program assisting the elderly.

As we stated in a letter to the House of Representatives on October 17, 1983, "NCSC is concerned about the continuing lack of a coherent national industrial policy for this nation. The impact of unemployment on the individual, his or her family and society in general poses a great threat to the stability and economic growth of America."

Beyond the general implications of sustained unemployment, it is clear that this nation cannot afford to meet its obligations to retired Americans when 8.5 million people are out of work. This was most clearly demonstrated during the 1982-83 crisis in Social Security when the cash benefit trust fund was threatened with insolvency. According to a report prepared by the House Select Committee on Aging, every one percent increase in unemployment costs the Social Security system about $2 billion. Between 1977 and 1982, an average of 7.7 million Americans were out of work costing the Social Security system $74.5 billion in lost revenues.

In fact, the recently passed Social Security Amendments of 1983 are based upon revenue assumptions which project a steadily declining rate of unemployment—from 7.7 percent next year to 5 percent in the year 2000. Unless we can meet these unemployment targets, we may yet face future problems in financing Social Security.

But the economic costs of general unemployment go beyond the Social Security issue. The fact is that every one percent increase in unemployment costs the government $30 billion in lost taxes and higher costs associated with unemployment. These higher costs include $3-4 billion in unemployment benefits, $500 million on food stamps, $100-200 million on Medicaid and $100-200 million on other assistance programs. That works out to almost $4,000 a year for each new addition to the jobless rolls (CBO figures).

These federal expenditures are essential for those people, who through no fault of their own, find themselves unemployed. Certainly they cannot be blamed for the Reagan Administration's efforts to bring down inflation through policies resulting in massive unemployment. But the costs of financing unemployment insurance and other benefits to those who lost their jobs was money that could not be spent to provide home-delivered meals to elderly shut-ins, housing assistance to the elderly poor or transportation services to those who cannot drive.

Mr. Chairman, senior citizens, although they have retired from the workforce, have not retired from life. Nor can we afford to ignore the economic consequences of high levels of unemployment upon the daily lives of older people.

We believe that the enactment of S. 707, the Fair Practices Automotive Products Act, will serve as one part of an industrial policy designed to assure high levels of growth and employment throughout the decades to come. And apparently, many people agree. According to a Lou Harris poll conducted in 1983, by a margin of 57 to 39, those surveyed supported local contents' requirements for automobiles.

Why is that? Well, other witnesses testifying today will elaborate on the general economic benefits of this legislation, but let me point out a few things:

1. The UAW estimates that without the enactment of a local content law, U.S. production of automobiles as a share of the market can be expected to drop from 75 percent to 50 percent of all U.S. auto sales.

2. Such a precipitous drop in domestic production of cars would mean a loss of 196,000 jobs for auto workers—and at least 5.5 times that many outside the auto industry for a total loss of 1.3 million jobs. This must be added to the 214 million auto workers who have lost their jobs since 1978; and

3. Passage of the domestic content law would have a limited effect on prices of U.S. cars.

This legislation would not limit the number of imported cars entering the United States, but it will encourage foreign manufacturers to build here in the U.S.—just as American manufacturers do elsewhere in the world. This will increase competition between domestic and foreign car manufacturers here in the U.S. and act as a restraint on higher auto costs.

Finally, Mr. Chairman, increased unemployment over the past decade has meant a growing percentage of all Americans in poverty—up to 14 percent from a low of 11 percent in 1973. Just between the years 1979 and 1982, the number of Americans in poverty rose dramatically, from 26.1 million to 34.4 million people—an increase of almost 30 percent.

Those of us who care about the poor (and understand the terrible costs of poverty) must point out that short-sighted economic policies add more to our national burden than they subtract.

We need a plan to rebuild and reindustrialize America, and S. 707 is a part of that plan. The Reagan economic program has attacked the poor and has given away a big part of our tax base to the wealthy, but it has not spurred corporate investment as it promised. However, it has choked off public sector investment that we need to assure that our people have the training and our economy has the stimulus for sustained growth in the 80's and 90's.

We urge the Congress to deal with these issues and to do so before our current "recovery" collapses once again into a devastating recession.

Thank you.

The CHAIRMAN. Thank you, sir. Let me address this, Mr. Sullivan and Mr. Stewart. As I am looking at the imported car sales in this country, I am struck by the fact that at the same time the Japanese sales were going up in this country, the European car sales here were going down.

What was Japan doing right or you doing wrong, whichever way you want to put it, that caused the European cars to go down not just in percentage but total number of sales?

Mr. STEWART. My personal opinion is basically design. I think that the Japanese designs were more palatable to the American consumer, and that's why they preferred to buy Japanese automobiles as opposed to the European automobile.

The CHAIRMAN. It wasn't any advantage that the Japanese had, just smarter design and smarter marketing?

Mr. STEWART. I think it's a definite design. All you have to do is look at the value of the yen and the value of the dollar, and the same thing is true to the European currency, but not to the extent of the yen in Japan. The product is more palatable to the consumer.

The CHAIRMAN. The argument about the yen is raised frequently. The Attorney General made reference today about internationalizing it. I think they are moving toward it.

Part of the pressure is coming from Japanese bankers who have had their money tied up and they would like to get out and compete in the world. I honestly think the yen is going to become internationalized, although I think you are talking about a 2- or 3- or 5-year period, not next December.

In your statement, and others have mentioned it also, there is a mention of the tax value, the rebate. Are you talking about the rebate on the export?

Mr. STEWART. I didn't mention that in my testimony. I'm not familiar with what you are talking about.

The CHAIRMAN. OK. I will withdraw that question.

Senator RIEGLE: Thank you, Mr. Chairman. One question I have is why did we save the best panel for so late in the day? You fellows should have been first.

The CHAIRMAN. I will tell you why. It's because you are so windy.

Senator RIEGLE. You make a good point. I am the most windy because I am so concerned about this issue. I want to thank this panel. You appear later this morning, and the room has less people in it than if you had appeared earlier.

I think what you are saying here is some of the most important testimony that we are getting in terms of the hard and cold practical realities of what is taking place. You know, I am struck by the example of what went on during the Vietnam War.

I want to use this as an analogy for a moment because many of us were serving in Congress at that time. The Vietnam War was small, and it was quite limited, and it was one kind of problem. It was not, if you will, a strategic problem, but as our involvement grew and grew and grew beyond a certain point of personnel, money and prestige, it grew to a size where eventually it became a strategic commitment.

In fact, it became such an enormous commitment it started to dwarf everybody else in our society, financially, in terms of public feeling and what have you. No one really anticipated that that was happening.

In other words, the situation changed gradually, step by step, and suddenly we woke up one day and found that the problem had turned into something very different than what it looked like when we first got in.

I think that is quite analogous to what we have going on here. The trade deficit has grown from a disastrous to a critical strategic problem, if it were only a $20-billion problem or a $30-billion-a-year problem, the merchandise trade deficit problem would be of such a different scale that, in fact, we wouldn't be here. It would not be of the strategic size we face today where we have spin-off effects and implications that have dramatic impact on the whole society. But what is happening here is that the trade deficit has grown so rapidly and it is now so big that it goes right to the heart of the way our economic system has worked all this century. Now we have a strategic problem on our hands.

When the trade deficit has grown to the point of $130 billion and it relates importantly to very valuable, high value added sectors of our national economy, it has grown into a strategic commitment.

Now, frankly, many people in our country still don't understand this because it happened quickly. Because it is unprecedented in our experience, our textbooks are not written along the lines of taking into account this kind of problem because we have never had it before. This is a whole new situation.

When you start talking with economic policy majors in Washington today, regardless of what side of the spectrum they are on, their eyes start glassing over because it doesn't fit the textbook models.

Many of the studies by CBO and others are done by textbook models based on historic examples that have no relationship to the situation we are involved with now. I am not sure myself how we get this problem illuminated sufficiently so the American public understands what is going on and what the consequences are if these trend lines continue.

We have a reporter here today from the Washington Post, and I'm glad we do. His presence provides an opportunity for this argument to be taken out and segmented to a broader audience. When the debate is carried out of this room and brought to a broader audience, people can think about it.

One thing worries me very much, however. I spent an hour yesterday with President Reagan and listened to him speak to a group of auto workers where he claimed that everything is clear sailing. His view of the economic future is no problems, everything has eventually been solved, just like this beautiful, blue sky day we see here in Iowa.

The problem is, if you come back to reality, you come back to the $130-billion-trade deficit, the $200 billion Federal deficit, Argentina threatening not to pay their bills, Continental Illinois needing a $7½ billion bail out, and interest rates now at 13 percent. The paper here today says that local consumer rates are going up to 19½ percent. If someone wants to borrow money, to buy a suit of clothes or to get their kids back to school and they have to do it on credit, that's the rate.

We have some enormously critical financial jeopardies that are bearing in on us here which boil down in the end, as you say, to the question of jobs in this country. Whether or not we are going to have enough jobs, whether or not they are going to be good jobs that provide a decent living standard, or whether we are going to have to find ourselves in a sense with wide open competition with these women I was describing in Korea working in these cold factories on their hands and knees on a cold concrete floor earning 50 cents an hour, if that much, and whether or not we are willing to reduce our living level that way.

We are going to have to go the other way. We are going to have to say to these other nations who are trying to try to lift their living standards that we are determined to preserve ours. Not just because we think our family and our citizens ought to be able to have a decent life and a good life, but also because we have enormous obligations that we carry as a society.

If we are going to pay the free world's defense bill. We have to earn it. We have to generate enough product and output to pay those bills. We are not doing that now. That is measured by the $200-billion fiscal deficit, but if we could put those people to work that are sitting idle, maybe in auto plants, we could get that deficit down, start generating additional national income, and as a result interest rates will come down, helping people who need to borrow money all over the country, including farmers in Iowa.

There is a way out of this box. Let me tell you what I think will happen if we don't recognize the problems here. We are going to wake up after the import limits have come off and the Japanese importers will be taking 48 percent of the market. Chrysler will possibly be back in a financial crisis along with AMC and possibly Ford. That's why they are only paying three times earnings in the stock market. Eventually, we are going to find ourselves in a weakened overall financial condition.

Everybody is going to be standing around scratching their heads and saying how did this happen? Why didn't we see it coming? We ought to see it coming. If we can't see it coming based on this hearing today and devise some way of dealing with it, none of us has met our obligation to our country, because, after all, that is what it's all about, whether we are going to be able to give our country the kind of direction and policy here that is going to be hopefully on a par with what we have had in the past, hopefully not just a long downhill slide.

I think your testimony today is very important. I think we have to go out and put a stop to this business where those people who have an interest in the importation of foreign goods and who are making fortunes at it, have been very clever trying to pit the American farmer and the agricultural side of the economy against the industrial side as if somehow they are at war against each other. This is a manipulated device.

In fact, the only way both can suffer in the end is if we get maneuvered into some kind of a struggle with each other when, in fact, our interests are the same.

The industrial workers on the industrial base and the agricultural people are going to have to get together and look out for each other. It's not going to be possible for one to survive and the other to go down the drain.

The only way one is going to survive is if both survive. The interests are the same. You have to have them lined up together and go down that track together. Frankly, that's what our Government should be doing now.

Unfortunately, I think there is too much playing one group off against another using politics, strategy, and invalid economic thinking, and somebody is getting rich off of that, but the country is not getting any richer.

I think your testimony has been very helpful in that respect.

Mr. CLAYMAN. Mr. Chairman, may I take a quick minute? I have been listening to the farmers, farm organizations testimony. I fully understand their fears. They worry about retaliation in the same fashion that an auto worker worries about his job, and both really are being very self-protective, as they should be, and fearful.

The pity is that it's necessary. As I was sitting back there and I heard the retaliation arguments, which they accept as gospel, it came to me that people do not and governments do not do business with the United States because they love us. They do it because we have the products they want, and that they may be short of, and the prime example that came to mind, sitting back there, was that of Russia and the United States.

We stick out our tongues at them on the hour, we make faces at them on the hour, we bitterly scold each other, we act like the worst enemies that ever the world produced, and yet they buy our agricultural products, even though they hate our guts, and they fear us as we fear them.

And that tells me—I think it ought to tell all of us—that retaliation will come only because trade with them doesn't serve their purposes. When it serves their purposes, even Russia, with the grain of Iowa, will say, "Please send it in. We will buy it."

So the retaliation argument really doesn't stand up to the realities of international trade in the world.

The CHAIRMAN. Thank you. Gentlemen, thank you very much. Let's conclude with the panel of Neil Christenson, vice president for marketing, farm equipment and consumer products, Deere & Co.; Farnsley Peters, president of the Iowa Association of Business and Industry; Marvin Runyon, president of Nissan Motor Manufacturing Corp. in U.S.A.; and Stephen Herrick, the chairman of Auto Internacional Association.

Why don't you start, Mr. Christenson?

## STATEMENT OF NEIL O. CHRISTENSON, VICE PRESIDENT FOR MARKETING, FARM EQUIPMENT AND CONSUMER PRODUCTS, DEERE & CO.

Mr. CHRISTENSON. Good afternoon, Mr. Chairman, Senator Riegle. I am Neil O. Christenson, vice president of farm equipment and consumer products marketing for Deere & Co., and I have a brief statement. I sent a longer, five-page statement to your staff, and I would like to request that that be made part of the record.

The CHAIRMAN. That will be made part of the record.

Mr. CHRISTENSON. Mr. Chairman, my company strongly opposes enactment of the local content legislation. I would like to mention briefly several of our reasons for taking that position.

While this proposal may help create some jobs in the United States auto manufacturing sector of our economy, we believe it will do so at the expense of individuals in other areas of the economy, particularly in agriculture.

One reason for this has to do with the likely retaliation we can expect from our trading partners if we were to pass major protectionist legislation of this kind.

This prospect causes those of us from farm States and farm-related industries particular concern. Agricultural exports represent 30 percent of the total U.S. farm cash receipts and 54 percent of the U.S. farm crop receipts.

Production of at least one out of every 3 acres of U.S. farmland is destined for foreign market.

Significantly, the largest purchasers of U.S. exports today are Japan and the European Economic Community, the countries most directly and adversely affected by this proposal.

In recent years these countries have purchased well over a third of total U.S. agricultural exports. They purchase nearly half of all U.S. exports of corn, soybeans, and soybean meal.

A significant reduction in these countries' purchases of U.S. agricultural commodities would seriously damage an already struggling U.S. farm economy and harm the farmers, suppliers and communities whose well-being it depends on.

Another reason that this legislation will adversely affect nonauto sectors of the economy relates to the fact that it would permanently insulate the U.S. auto industry from competition.

In doing so, it will reduce the incentives the industry and suppliers will have to lower costs and become more efficient. This, in turn, will have the effect of making it more difficult for manufacturers such as ourselves, who utilize many of the same inputs as the auto companies, to continue to make the cost and other productivity adjustments we need to compete effectively internationally.

Some people may say this legislation will only be temporary, that it will protect the auto industry only for a short period of time of adjustment, and that we can live with that, but the experience of other countries with local content laws has generally been that, once in place, content requirements are seldom reduced or eliminated.

Because of this, passage of domestic content legislation in this country would represent an acknowledgement of defeat, a decision that auto manufacturers and perhaps other major manufacturers have no hope now or in the future of competing with foreign producers. We simply don't agree with that conclusion.

This legislation would also be costly to American consumers. Not only will automobile costs be higher but consumer choices will be more limited.

Mr. Chairman, this bill appears to be based on the assumption that we can somehow isolate ourselves from the very competitive and difficult economic environment in which we live. The fact is, however, that we cannot.

If our country's economic competitiveness is eroding and in trouble, and I might add that I believe it is, then we need to take fundamental steps to deal more directly with that fact, but a counterproductive attempt to isolate one major segment of our economy from the world economy is simply not what we need to restore this country's competitive edge and economic health.

I want to thank you for your kind attention.

[The statement follows:]

### STATEMENT OF NEIL O. CHRISTENSON, VICE PRESIDENT, FARM EQUIPMENT AND CONSUMER PRODUCTS MARKETING, UNITED STATES AND CANADA, DEERE & CO.

Mr. Chairman, I am Neil Christenson, Vice President of Farm Equipment and Consumer Products Marketing for the United States and Canada for Deere & Company. Deere—or John Deere as we are better known—manufactures, distributes and finances a broad line of farm and construction equipment. We are the largest manufacturer of farm equipment in the world, and the largest private employer in the State of Iowa. This past year we employed 45,700 persons worldwide and had sales of approximately $4 billion. We sell our products through approximately 3500 independent dealers located throughout the United States. I appreciate the opportunity to appear before your committee to present our views on S. 707, the "Fair Practices in Automotive Products Act."

Mr. Chairman, my company strongly opposes this legislation. In the short time we have this morning, I'd like to mention briefly several of our reasons for taking that position. Though this proposal may help to create some jobs in the U.S. auto manufacturing sector of our economy, we believe it will do so at the expense of individuals in other areas of the economy, particularly in agriculture. Studies by the Congressional Budget Office, the Department of Commerce, and Wharton Econometric Forecasting Associates have all reached this conclusion. The Wharton study analyzed the house-passed bill in the form it was first introduced, which I understand was not substantially different from the bill the Senate is now considering. It indicated that by 1986, 22,000 jobs would be gained in the auto sector, but 108,000 jobs would be lost in the rest of the economy. It further indicated that by 1991, 58,000 jobs would be gained in the auto sector, but 423,000 jobs lost in the rest of the economy. That is, by that year each new auto sector job would come at the expense of 7.3 jobs lost in other areas.

One reason for the loss of jobs in other sectors of the economy has to do with the likely retaliation we can expect from our trading partners if we were to pass this legislation. This prospect causes those of us from farm states and farm-related industries particular concern. Agricultural exports represent 30 percent of total U.S. farm cash receipts and 54 percent of U.S. farm crop receipts. Production of at least one out of every three acres of U.S. farmland is destined for foreign markets. Typically we export about a fourth of the U.S. corn crop, half of the soybean crop, 60–65 percent of the wheat crop, and over 40 percent of the cotton and rice crops.

The possibility of retaliation is real. Our most recent experience occurred just last year, when China cut off its planned purchases of U.S. wheat and soybeans in direct response to this country's restrictions on imports of Chinese textiles.

Significantly, the largest purchasers of U.S. agricultural exports today are Japan and the European Economic Community—the countries most directly and adversely affected by this proposal. In recent years these countries have purchased well over a third of total U.S. agricultural exports. They purchase nearly half of all U.S. exports of corn, soybeans and soybean meal. In today's economic and political climate we do not believe that these major purchasing nations will stand by idly if the U.S. enacts a protectionist measure of the magnitude of S. 707. A significant reduction in these countries' purchases of U.S. agricultural commodities would seriously damage an already struggling U.S. farm economy and harm the farmers, suppliers and communities whose well-being depends upon it. This includes our own company and its employees, since most of our sales ultimately depend upon U.S. agriculture. Also, retaliation could directly affect exports of Deere's products. About 15 percent of our U.S. manufactured equipment is sold outside the country.

Another reason that this legislation will adversely affect non-auto sectors of the economy relates to the fact that the legislation would permanently insulate the U.S. auto industry from foreign competition. It would therefore reduce the incentives the industry and its suppliers will have to lower costs and become more efficient. Sponsors of the legislation have correctly pointed out the significance to our economy of the automobile industry and its related businesses. They state, for example, that 21 percent of the steel, 12 percent of the primary aluminum, 50 percent of the malleable iron, and 60 percent of the synthetic rubber made in the United States are used in auto production. If we protect this significant part of our economy from foreign competition, this will also have the effect of making it more difficult for manufacturers such as ourselves, who utilize many of the same inputs as the auto companies, to continue to make the cost and other productivity adjustments necessary to compete effectively internationally. In today's interrelated economy, protection in one economic sector has major spillover effects in many other areas.

Some people may say that this legislation will only be temporary—that it will protect the auto industry only for a short period of adjustment, and that we can live with that. First, it is debatable whether the auto industry—given its current strength—continues to need any protection at all. Second, the auto manufacturers themselves have pointed out they don't need legislation which is this extreme. But beyond that, the experience of other countries with local content laws has generally been that, once in place, content requirements are seldom reduced or eliminated. This occurs because the domestic auto industry becomes dependent upon the protection which local content affords from foreign vehicles that may be more attractive, higher quality, and/or less costly. Because of this, passage of domestic content legislation in this country would represent an acknowledgement of defeat—a decision that auto manufacturers, and perhaps other major manufacturers, have no hope now or in the future of competing with foreign producers. We simply don't agree with that conclusion.

This legislation would also be costly to American consumers. The U.S. Commerce Department estimates that this legislation would cause car prices to increase about 10 percent; the Congressional Budget Office estimates a price rise of about 6 percent; the Federal Trade Commission estimates that auto prices would increase by at least 6 percent and perhaps more; and the Wharton study estimates an increase of more than 10 percent and a cost to American consumers of $18 billion a year. Not only will automobile costs be higher, but consumer choices will be more limited. We have better, more economical U.S. manufactured automobiles today because of foreign auto competition. It is not surprising that a growing number of consumers and consumer groups are active in opposing this legislation.

Mr. Chairman, this bill appears to be based upon the assumption that we can somehow isolate ourselves from the very competitive and difficult economic environment in which we live. The fact is, however, that we cannot. Those of us whose well-being depends on agriculture are very much aware of that fact. Competition—foreign as well as domestic—is the best means to make U.S. manufacturers more efficient and to improve their products. If our country's economic competitiveness is eroding and in trouble—and, I might add, we believe it is—then we need to take fundamental steps to deal more directly with that fact. From a public point of view, we need to provide an environment in which our economy can grow—by dealing with our enormous budget deficits, by encouraging greater savings and investment, by negotiating lowered trade barriers where they exist, and by more aggressively capitalizing on the comparative advantages which our country already possesses, as for example in agriculture. And in the private sector, we need to increase our productivity and become more effective managers and better salesmen. Steps such as these can help us with our current difficult situation. A counterproductive attempt to isolate one major segment of our economy from the world economy is simply not what we need to restore this country's competitive edge and economic health.

The CHAIRMAN. Thank you. Mr. Peters?

## STATEMENT OF FARNSLEY PETERS, PRESIDENT, IOWA ASSOCIATION OF BUSINESS AND INDUSTRY

Mr. PETERS. Mr. Chairman, Senator Riegle, I am Farnsley Peters, president of the Iowa Association of Business & Industry. We are pleased to have the opportunity to submit a statement to you today and we will try to be brief and comment on the legislation.

I would like to commend you for holding this hearing out in the field and in the State of Iowa. I'm sure there are people, perhaps the New York Times reporter, who wonder why you are having this hearing here in Iowa, but I'm sure there are reasons we should be concerned.

Senator Riegle has commented about the great manufacturing state of Michigan being a great agriculture State. The great agriculture State of Iowa is also a great manufacturing State.

I don't know if everyone is aware that the dollar output of the manufacturing plants in Iowa is three times greater than the dollar output from Iowa's farms. Over 50 percent more people are employed in manufacturing than agriculture.

Over 750 of our manufacturing firms sell their products in foreign markets. The dollar value of their exports exceeds $3 billion annually. Anything that is done, in our opinion, that will affect free trade around the world, certainly it is going to have an effect on Iowa manufacturers.

Second, the fact that Iowa is a farm State is an equally strong reason why we are concerned about the legislation. Iowa ranks second as an exporter of agricultural products. We depend upon our access to foreign markets to sell a high percentage of our products.

Political trade barriers or retaliatory trade limitations adversely affect our farmers, and when the farmers in Iowa are hurting, everyone is hurting.

As a State, we have not yet recovered from the abortive Russian trade embargo. However, let me assure you that we have the same concern for the future of manufacturing jobs in the Nation as the proponents of domestic content legislation.

We recognize that foreign competition is hurting our basic industries, and that the concept of free trade is a long way from reality in the world, but we must urge Congress to consider whether or not this situation might create worse problems than it would solve.

I can tell you we in Iowa would not look kindly on new barriers to the sale of our agricultural products abroad. There seems to be little doubt that domestic content legislation would do this.

Nor are we willing to trade jobs in the agricultural equipment and construction equipment business for the jobs in the auto business. It seems to us that the auto business in the United States is doing all right right now, while these other two essential industries, manufacturing industries which are major employers in the State of Iowa, employing over 33,000 people in the State, are still suffering from the effects of Federal policies.

I might say I noticed a copy of the New York Times today that indicated in the same headline that farm implement manufacturing is in severe trouble while the automobile profits are up.

I think that dichotomy, that part of the auto industry, as it has been referred to here today, will benefit from this legislation, while other parts will be hurt is something that concerns us very deeply here in Iowa.

We hope you will take this message back to your colleagues in Washington. Domestic content legislation is an idea whose time has never come, and never will if the United States hopes to be an active participant in world trade. Thank you very much.

The CHAIRMAN. Mr. Runyon?

## STATEMENT OF MARVIN RUNYON, PRESIDENT, NISSAN MOTOR MANUFACTURING CORPORATION IN U.S.A.

Mr. RUNYON. Mr. Chairman, Senator Riegle, I am Marvin Runyon, president and chief executive officer of Nissan Motor Manufacturing Corp. U.S.A., which is a subsidiary of Nissan Motor Co., Ltd. of Japan. We constitute Nissan's entry into the automotive industry in the United States.

A lot has happened during our first year in production, especially in recent months. In June we reached our target production rate of 120,000 units a year on one shift. In May, a major automotive trade journal ranked our pickup truck at the top of its class among both domestic and imported light pickup and utility vehicles.

Our greatest compliment came when Nissan decided we were ready to take on the challenge of producing cars as well as trucks. We will be producing the Nissan Sentra, the best selling import in America, in April 1985.

Fundamentally our success has been built upon two foundations, quality and competition. A strong emphasis on quality pervades everything we do. Competition has also been key, competition to meet and exceed the high quality vehicles produced by Nissan in Japan, competition with other producers of pickup trucks here and abroad, and competition among suppliers both in the United States and abroad to win and keep our business.

I have been in the automotive manufacturing business for 41 years. The first 37 years were with Ford. If I learned anything at all during this time, it's that competition and quality are inseparable.

Your committee has been given many good reasons to reject domestic content legislation. There is no better reason, however, than that domestic content will undermine the driving forces of competition and quality that are the basis for our industry's comeback and for the success of our own company.

Domestic content can only lead to our permanent decline. The reasons are clear. Domestic content legislation means two things: Quotas for imported vehicles, and buy America for parts and labor regardless of cost and quality.

The quota provisions would limit the number and variety of imports, resulting in severe constraints upon competition. Mandating fixed levels of U.S. content, regardless of quality and costs, would likewise relax the discipline of competition from abroad.

The relaxation of competitive pressure would slow the quest for quality and reduce the pressure on U.S. manufacturers to hold down costs. Anyone who tells you you can have equal or stronger competition and equal or higher quality vehicles under a domestic content regime is not living in the real world.

Let me state emphatically that our company cannot meet the requirements of S. 707 now and will not be able to meet the bill's requirements even when our plan to produce passenger cars is fully implemented.

The company would not and could not meet the content requirements of the law and be a successful competitor in the U.S. market. Our future growth and indeed our current operations would be jeopardized.

The domestic content of our trucks is in the range of 50 to 55 percent. This level of domestic content represents a substantial gain over what we initially expected to achieve. This is evidence of our intent to utilize the maximum U.S. content that is consistent with our stringent sourcing criteria of quality, price competitiveness, and timeliness of delivery.

We now procure parts and components from 88 companies and 21 States, and our domestic content will continue to rise as American companies demonstrate the ability to meet our criteria.

There is a limit, though, to the domestic content we can expect to achieve. Although I look forward to the day when the success of our operations will allow us to manufacture major components such as engines and transmissions in the United States, our production volumes are still too small to cost-justify that activity.

Our volumes will increase sufficiently to allow us to achieve maximum domestic content only when American consumers with freedom of choice in a competitive marketplace make it happen.

Nissan management does not want to cancel plans for the future growth of our company nor to scale back production in the United States. I, my nearly 2,000 coworkers, and the many companies that depend on us for business certainly do not want the company to even contemplate such choices, but they are real choices, and Congress would force Nissan to consider them if it were to pass this ill-advised legislation.

That concludes my summary statement. I want to thank you for the opportunity to present our views.

[The statement follows:]

## STATEMENT OF MARVIN T. RUNYON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NISSAN MOTOR MANUFACTURING CORP., U.S.A

I am Marvin Runyon, President and Chief Executive Officer of Nissan Motor Manufacturing Corporation U.S.A. This company is a subsidiary of Nissan Motor Company, Ltd. of Japan. We constitute Nissan's entry into the automotive manufacturing business in the United States.

Three weeks ago today, we held a company-wide meeting of our nearly 2,000 employees to celebrate the anniversary of "Job 1," the day our first pickup truck rolled off the assembly line in Smyrna, Tennessee, two months ahead of schedule. It was indeed an appropriate benchmark to celebrate.

A lot has happened during the course of our first year, in operation, especially in recent months. In June, we reached our target production rate of 120,000 units a year on one shift. In May, Ward's Auto World, a major automotive industry trade journal, ranked our Tennessee-made pickup at the top of its class among both domestic and imported light pickup and utility vehicles. Fortune magazine in a recent cover story included us among the ten companies it identified as "America's Best Managed Factories." We also found ourselves described in a national best-selling book entitled "The Best 100 Companies to Work for in America."

These accomplishments were significant for a company as young as ours. But the greatest compliment of all came when Nissan's management decided that we'd done well enough to take on the challenge of producing cars as well as trucks. We'll be producing the Nissan Sentra, the best selling import in America, by April 1985.

Many deserve credit our our success—mainly, of course, the nearly 2,000 people who are Nissan Motor Manufacturing Corporation U.S.A. A lot of credit is also due the people of Nissan in Japan with whom many of us have trained side by side. And many outside the company, in Tennessee and around the country, have been terrifically supportive and deserve our thanks.

Fundamentally, our success has been built upon two foundations: quality and competition. A strong emphasis on quality pervades everything we do. Competition has also been key—competition to meet and exceed the high quality vehicles produced by Nissan in Japan, competition with other producers of pickup trucks here and abroad, and competition among suppliers both in the United States and abroad to win and keep our businees.

I've been in the automotive manufacturing business 41 years. The first 37 years were with Ford. I began my career on the line and retired as Vice President, Body and Assembly Operations, with responsibility for 29 plants and more than 120,000 employees. If I've learned anything in 41 years, it's that competition and quality are inseparable. They have been the key to success in this new Nissan company. They are the key to the long term health of our automotive industry. And they are the key to maintaining the competitiveness of all American industry.

Competition and quality also explain the astounding come-back of the U.S. auto industry. The industry acknowledges that the quality of American cars declined in the 1970s. I know. I was there. The absence of strong competitive pressure in the 1970s was to blame. We had the only market for large cars, and only we built them. We got fat and happy. When the market changed dramatically and permanently after 1978, we paid a high price to catchup. That price was compounded by the coincidence of a severe recession.

That crisis is behind us now, but we should not forget the lesson that it taught us. It was competition, primarily competition from abroad, that provided the stimulus and discipline which forced our industry to face its problems. The industry's consumers, the industry itself, and our economy as a whole have benefited tremendously from that painful experience. Mr. Chairman, in your extensive hearings on S. 707, your committee has been given many good reasons to reject domestic content legislation. There is no better reason, however, than that domestic content will undermine the driving forces of competition and quality that are the basis for our industry's come-back and for the success of our own company. Domestic content can only lead to our permanent decline.

The reasons are clear. Domestic content legislation means two things: quotas for imported vehicles, and "Buy America" for parts and labor regardless of cost and quality. The quota provisions of S. 707 would surely come into effect if the legislation were passed (as the Congressional Budget Office and others have explained in numerous analyses). They would limit the number and variety of imports, resulting in severe constraints upon competition. The relaxation of competitive pressure would then slow the quest for quality and reduce the pressure on manufacturers to hold down costs. Mandating fixed levels of U.S. content regardless of quality and cost would likewise relax the discipline of competition from abroad. Anyone who tells you that you can have equal or stronger competition and equal or higher quality vehicles under a domestic content regime is living in an Alice-in-Wonderland world, not the real world we have all lived through over the past decade.

In my testimony today, I want to tell you about our operations and explain the impact that S. 707 would have on them. The broader implications for all foreign automotive investment in the United States should be clear.

Let me state unequivocally that our company cannot meet the requirements of S. 707 right now, and will not be able to meet the bill's requirements even when our plan to produce passenger cars is fully implemented. If Congress and the president were to make the terrible mistake of enacting domestic content into law, Nissan would, of course, comply—that is, we would comply with the quota provisions of the law. At our current and future projected level of sales, the company would not and could not meet the content requirements of the law and be a successful competitor in the U.S. market. It is not likely that new investments would occur. Our future growth and indeed our current operations would be jeopardized.

The fact that Nissan cannot comply with the requirements of S. 707 is clearly not for lack of having made a major investment commitment in the United States. Our company constitutes the largest single manufacturing investment made by any Japanese company outside of Japan. Nissan's investment in Tennessee exceeds $660 million. The production of passenger cars will result in another $85 million investment, a relatively modest sum by auto industry standards only because of facilities were originally designed and built for expansion. Nissan's total commitment will substantially exceed $1 billion before the company becomes profitable.

Our facility has 3.4 million square feet, or about 78 acres, under roof. It is the most automated plant in the Nissan system, and it is one of the most technologically advanced manufacturing operations in the world, utilizing over 230 robots, advanced computer and communications systems, and other state-of-the art technology.

We are now producing pickup trucks at a rate of 120,000 units annually. We will begin production of the Sentra next April. Our transition to manufacturing both cars and trucks will be complex, so the plan will be fully implemented over a three-year period. When the transition is complete, we will have the capacity to build 140,000 trucks and 100,000 passenger cars annualy on two shifts. We will increase our employment about 50 percent, from nearly 2,000 to 3,000.

The domestic content of our trucks is in the range of 50—55 percent using the bill's formula. (I must use a range, incidentally, because we do not know precisely the domestic content of the components we buy from our American suppliers. Many of our suppliers themselves don't know. We've asked them.) Our current domestic content level represents a substantial gain over what we expected to achieve when we broke ground three years ago. It is testimony to our commitment to utilize the maximum U.S. content that is consistent with our stringent sourcing criteria of quality, price, competitiveness and timeliness of delivery.

Any one of our suppliers will tell you these aren't "lip service" criteria. We operate in a demanding competitive environment, and we impose high standards upon suppliers to win and keep our business. But we now procure parts and components from 88 companies in 21 states, and we are always searching for new U.S. sources. Our domestic content will continue to rise as American companies demonstrate the ability to meet our criteria. There is a limit, though, to the domestic content we can achieve—a limit imposed upon us by the economies of scale in automotive manufacturing.

We estimate that S. 707 would require us to meet a content ratio of 70 percent. Even with a billion dollar commitment, and even anticipating production of 240,000 cars and trucks, we cannot meet that requirement. Although I look forward to the day when the success of our operations will allow us to manufacture major components such as engines and transmissions in the United States, our production volumes are still too small to cost-justify that activity. If we tried to build engines or transmissions, our costs and prices would be significantly out of line with those of our competitors, and our ability to complete would be destroyed. Our volumes will increase sufficiently to allow us to achieve maximum domestic content only when American consumers with freedom of choice in a competitive marketplace make it happen. You can't legislate success, and success is what it will take to allow our company in Tennessee to achieve a 70 percent domestic content ratio.

Even if our company could reach a domestic content level of 100 percent in the trucks we are building and the passenger cars we will build in Tennessee, Nissan could not meet the bill's requirements. Given the variety of models involved, sales volumes, and consequent economies of scale, it would be impossible for Nissan to achieve a 70 percent domestic content ratio and build price-competitive products in the United States.

Since Nissan could not meet the content requirements of S. 707, it would be subject to the bill's import quota. That quota would apply both to the production of vehicles by our company in Tennessee and to the import of vehicles produced by Nissan in Japan. Because it would severely limit the number of vehicles Nissan could sell in the United States, it would adversely affect Nissan's very significant marketing and sales subsidiary in the U.S. as well as the dealer network upon which we depend to sell cur products. In total, Nissan's United States import, distribution and sales operations today provide jobs for 41,000 Americans.

Advocates of this bill have tried to persuade Congress that foreign manufacturers like Nissan who have a big stake in the U.S. market wouldn't "walk away" if the bill were passed. They claim that billions of dollars in new foreign automotive investment would flow into the United States, creating new automotive plants and hundreds of thousands of new jobs. But the logic behind the claim that S. 707 is an "investment bill" is totally erroneous. In fact, if this bill were passed, it would cause radical changes in the U.S. automotive market. It would force every automotive manufacturer to analyze how to comply with the law while causing as little damage as possible to its operations, and it could very well be a disincentive for continued foreign investment in the U.S. auto industry.

I can't tell you with certainty what Nissan would do if S. 707 were to become law. of course Nissan has a tremendous stake in the U.S. market. That's why our company exists. But Nissan's choice, if domestic content were to become law, would not be to invest billions more in new plants or "walk away." Nissan would have to balance profit and market position considerations with the content demands of the bill and the implications of the quota to determine various alternative strategies. Selecting a strategy would not be easy. But it is conceivable that it would make more sense to sell Japanese-made high profit vehicles in the United States under the quota—taking advantage of the contribution that distribution costs and profits make to "domestic content"—instead of producing a large number of low profit vehicles in Tennessee.

Nissan management does not want to cancel plans for the future growth of our company nor to scale back production in the United States. I, my nearly 2,000 coworkers, and the many companies that depend on us for business certainly do not want the company to even contemplate such choices. But they are real choices, and Congress would force Nissan to consider them if it were to pass this ill-advised legislation. All of us earnestly trust that you and your Senate colleagues will have the wisdom and the political courage to reject S. 707 and any domestic content amendment that may be proposed on the Senate floor.

Before concluding my testimony, I would like to address one argument in particular that the proponents of S. 707 have advanced—that the United States should adopt domestic content legislation because other countries have. The proponents of this rationale carry with them a list of countries that employ such policies, and they identify others which allegedly impose more strict limits on imports than the limits imposed by the United States. Those lists have been submitted to you. I urge you in the strongest terms to study them carefully. To paraphrase one of our competitors, if you can find a country on those lists with an economy that has a better record than our own in creating jobs, in creating opportunity, in creating wealth and a high standard of living, then you should look to it as an example to be emulated. But you won't find any such country. There is none. We have our share of economic problems in this country, but they pale by comparison to the problems of our trading partners, especially the ones that pursue protectionist policies like domestic content.

Moreover, there is a fundamental reason for which domestic content requirements are impractical in the United States. It is essentially based upon economies of scale. The accompanying bar graph compares the volume of production of passenger cars in the United States with four countries which mandate local content ratios. See Exhibit 1. More motor vehicles are produced in these four countries than in any others employing local content laws. The figures below the graph show production volumes of the leading manufacturers in each of these countries.

As you can see, the competitive environment is quite different in the United States than in the other countries. In each of the other countries, the entire production base is small, and the production base of each manufacturer is small. The manufacturers are all in the same boat, so to speak, producing relatively low volumes, with consequent similar cost penalties. Since they have similar handicaps, and since import competition is strictily limited, domestic content requirements do not excessively disadvantage any of the producers.

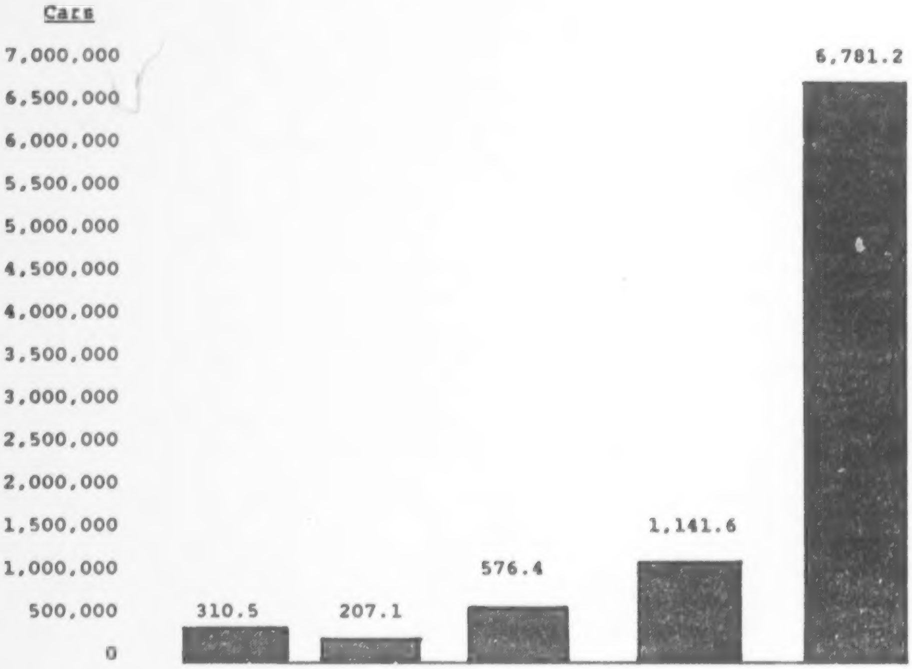
If content requirements were introduced in the United States, the implications would be dramatically different. Foreign companies forced to move production to the United States at high levels of domestic content would have low production volumes compared to those of domestic manufacturers. They would incur relative cost penalties and would be placed at a severe competitive disadvantage. They would be at an even more severe disadvantage vis-a-vis foreign manufacturers not required to move production to the United States because of their lower sales volumes.

Mr. Chairman, we won't find solutions to the problems of our economy in dead-end policies like domestic content. We'll only compound our problems by passing such a law. The only way we can hope to succeed as an industrial economy in the long-term is to subject ourselves to the disciplines of competition and quality—disciplines that are proven formulas for success.

That concludes my formal statement. Thank you again for the opportunity to present our view on this legislation. I will be happy to try to answer your questions.

1983 Production of Cars in Selected Countries

(all figures in 000)



| Australia | Mexico | Brazil | Spain | USA |
|---|---|---|---|---|
| FO: 113.9 | VW: 126.3 | VW: 256.3 | FA: 296.1 | GM: 3,974.5 |
| H: 112.3 | CH: 39.1 | GM: 139.8 | S: 240.0 | FO: 1,546.9 |
| | FO: 36.8 | FO: 86.3 | FO: 222.0 | CH: 902.9 |

Key: FO = Ford; H = Holden (GM); VW = Volkswagen; CH = Chrysler; GM = General Motors; FA = Fasa; S = Seat.

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Source: Motor Vehicle Manufacturers Association

Senator RIEGLE. Mr. Herrick, before we start, I have to excuse myself. I don't want to however, but I have to make an airplane. I need to get back to Michigan. I appreciate your comments and patience this morning in testifying.

## STATEMENT OF STEPHEN HERRICK, CHAIRMAN, AUTO INTERNACIONAL ASSOCIATION

Mr. HERRICK. My name is Stephen Herrick, and I serve as chairman of the board for Auto Internacional Association. I am pleased to have this opportunity to speak with you and to present my association's views in opposition to S. 707.

Auto Internacional Association is a relatively young trade association composed of over 200 importers, exporters, manufacturers and representatives and distributors of parts and accessories for imported vehicles.

Mostly, our members and the industry of which we belong do business in the automotive after market as opposed to the original equipment market. We estimate that our portion of the automotive after market is composed of over 3,000 small businesses, which support over 100,000 Americans.

Our chain of distribution involves more entities than the importer or manufacturer of the part. Once the part is imported, it is transferred to various warehouses closer to locations of the retailer.

Jobbers and the warehouses themselves will distribute the parts to various retail outlets, which might be stores, dealerships, repair shops, or service stations.

I, myself, serve as president of the Lazorlite Division of SBH Corp., a business I started nearly 21 years ago. Lazorlite was the first, and is therefore the oldest, American-owned company specializing in the importation and distribution of replacement parts for Japanese automobiles.

I speak to you not only for the industry represented by my association, but also for myself and my employees and their families. Our opposition to the local——

The CHAIRMAN. Mr. Herrick, I had a chance to read your statement last night.

Mr. HERRICK. This is my oral presentation and not my written presentation. Our opposition to the local content legislation centers on what is perceived as a disastrous effect on our industry and potentially upon the economy of our country as a whole.

Further, if there is a need for such legislation, this need is lessened due to the current upswing of the economy. There are people better qualified than I to speak regarding the revitalization of the industry. Instead, I will endeavor to explain what we believe to be the bill's likely effect upon our particular industry.

There is no need to repeat what others have told you about the bill's general negative effects on our country and on its trading partners.

As for the Americans in the replacement parts business for import vehicles, it should be manifest to you that we will be badly mauled should such legislation become law. Many of us will simply be forced to close our doors. My company will be one of those.

Our industry will be injured regardless of who is correct in assessing this bill. The importers and smaller manufacturers will be forced out. The bill will cause an increase in the price of automobiles. One can expect the resultant lessened demand to force the consumer to hold his car longer. Ordinarily the aftermarket benefits from such a state of affairs.

Unfortunately, our losses due to the shrinkage of the market will be more than offset by the possible benefits. Furthermore, our market will continue to shrink as older cars come off the road.

As our market shrinks, our entire distribution system will become inefficient and overinventoried. The national result would be that only a few of our warehouse systems can survive. Those of us who export will be damaged in a similar fashion as farmers and others, except that we will be harder hit since we are dealing in auto parts. There are positive steps which may be taken to enhance the competitiveness of the automotive industry. They range from providing more flexibility in joint research and development programs to reassessing the impact of the Clean Air Act.

These policies contrast sharply with the negative approach that is taken by Senate Bill 707 and by the likely effect of such bill's passage.

The bill is ill-conceived and ill- timed. As an independent businessman, I have worked very hard and long to build my business. I, like so many others, started on nearly nothing. I had but $100. I reinvested my capital in the business, and with it my family's future, as well as the future of my employees and their families.

To have our futures wiped out by a bill that throws up an artificial restraint to competition is a pity, but the greatest pity of all is that if this bill is passed, it will surely fail and then everyone will suffer.

Auto Internacional Association urges you to report this bill unfavorably. Thank you for allowing me to present my association's views on this.

[The statement follows:]

## STATEMENT OF STEPHEN B. HERRICK, CHAIRMAN OF THE BOARD, AUTO INTERNACIONAL ASSOCIATION

Mr. Chairman, my name is Stephen Herrick and I serve as chairman of the board for Auto Internacional Association. I am pleased to have this opportunity to testify before the committee today and to present my association's views in opposition to S. 707, the Fair Practices in Automotive Products Act.

Auto Internacional Association is a relatively young trade association composed of nearly two hundred importers, exporters, manufacturers, representatives and distributors of parts and accessories for imported vehicles. Mostly, our members and the industry of which we belong, do business in the automotive "aftermarket" as opposed to the original equipment market. We estimate that our portion of the automotive aftermarket consists of about 3,000 small businesses, supporting over 100,000 Americans. The chain of distribution for our industry involves more entities than the importer or manufacturer of the part.

Once we import the part, it is transferred to various warehouses closer to the location of the retailer. These warehouses serve to hold much of the industry's inventory. Jobbers and the warehouses themselves will distribute the parts to various retail outlets, which could be stores, dealerships, repair shops, or service stations.

I, myself, serve as president of the Lazorlite Division of the SBH Corporation, a business I began nearly twenty-one years ago. Lazorlite was the first, and is therefore the oldest, American-owned company specializing in the importation and distribution of replacement parts for Japanese automobiles. In testifying, I speak not only for the industry represented by my association, but also for myself and for my employees and their families.

Our industry is not small. Over 20 percent of the market for aftermarket parts in the United States is derived from Japanese imports alone. The total dollar value of this market is well in excess of one billion dollars annually. Over 50 percent of such parts are provided outside the normal dealership channels, where our industry does most of its business.

Our opposition to local content legislation centers on what we perceive as its disasterous effects upon our industry and, potentially, on the economy of our country as a whole. Further, if there were need for such legislation, this need is lessened due to the current upswing in the economy, an upswing which the auto industry is also enjoying. There are people better qualified than I who will speak to you regarding the revitialization of the automobile industry. I cannot, however, help but wonder at the need for such a bill. New car and truck sales are projected to hit 13.6 million units in 1984. Production will hit 10.3 million. Using Department of Commerce figures, that represents an 11.5 percent increase in sales and a 10.8 percent increase in production over 1983, and 1983 was the best year since 1979. Profits are up for domestic car manufacturers. 1983 profits were $1.87 billion and $3.73 billion for Ford and General Motors respectively, and even American Motors has recently reported its second straight profitable quarter after fourteen consecutive quarterly losses. This should be contrasted with the relative sluggishness of any increase in import sales. Import car sales were up in February 1984 only 1,000 units from February 1983, and their market penetration dropped to 22.14 percent of the United States market, down from 29.64 percent in 1983. For May, import penetration was only 23.26 percent which was down from 24.69 percent penetration in 1983. I have substantial difficulty understanding the need for such legislation, even assuming it would have the results contemplated by its most ardent supporters.

Proponents have claimed that the Japanese market penetration is a result of unfair aid from the Japanese Government and should be countered with prescriptions enacted by the U.S. Government. Certainly when one considers the reasons for Japanese market penetration, the list must begin with the change in America's taste in cars in the 1970's. Fuel cost and its shortage of supply forced America into looking for a small efficient automobile. Many Americans are still interested in fuel savings and conservation. While Detroit's sales may once again focus on larger, less fuel efficient cars, imports have, and will continue, to keep fuel consumption down. As we all know, Detroit was woefully unprepared for the alternation in consumer demand in the 1970's, and so imports made gains in the marketplace. Those who purchased these imports found that the quality of the import was in most instances superior to demestic automobiles, especially in the so-called fit and finish area. These are, in the main, the reasons for the market penetration of imported automobiles.

Turning to the effects of this legislation, our association is in no way convinced that they are worth the price we and the United States in general will be made to pay. To begin, the recovery I have outlined is endangered by the artificial market suppressant known as local content. Detroit's newly rediscovered efficiency will suffer. The domestic companies will have to meet the content requirements by drastically reducing their ability to go outside U.S. borders for less expensive and/or higher quality parts. Import competition will be stiffled and prices will rise. Estimates on how much of an increase in price will occur vary from $450 to over $1,000 per car, but not one predicts lower prices due to the passage of this bill. As the price of a car rises, consumer demand falls. Therefore, any additional sales that domestics make in the import market share will not equal the loss in total auto sales.

As a so-called U.S. auto industry policy, as the United Auto Workers have called it, the bill is an even greater disaster. We already have a policy. The United States attempts to nurture free trade with our allies and trading partners. This bill will bring retaliation and will discourage foreign investment from entering the United States.

Retaliation will occur both by the direct reaction of the Japanese, and by creating a generally hostile climate for world trade. Those who argue that the Japanese will not retaliate through GATT and by erecting their own protectionist barriers are mistaken. This legislation would do a great deal of harm to an existing Japanese industry. This harm has not occurred where other countries have closed their doors to the Japanese, and both economics and local politics would force the Japanese Government to take action. The Japanese are allies of the United States and, as neighbors of the Soviet Union, are important to our national security. Unnecessary actions to weaken their economy are ill-advised. Further, this bill will amount to a quota in violation of GATT if the import car manufacturers chose not to invest their capital in the United States.

In its approach, this bill will darken the trade climate in general. We of the United States have always been a leader in forming world opinion regarding trade. This is a result of the market which we represent to foreign exporting nations. This is the wrong message to communicate to our trading partners and will hamper us in our attempts to open foreign doors to our own exports. These closed markets will dampen any benefit to exporters which they might otherwise enjoy as the dollar gains strength against foreign currency. The result will be an even greater trade deficit. I am sure that there are many persons who will testify to the damage this bill will do to the export industry. I hope that you will listen, for at best the bill would merely shift unemployment and would not create new jobs.

Finally, the bill is not going to encourage foreign investment in the United States. You have or will no doubt hear from Honda of America and Nissan Motor Manufacturing Corporation, U.S.A. regarding their discouragement at the prospect of the bill's passage. The United States is fertile ground for foreign investment because of economic and political stability. The bill imposes an artificial market requirement devoid of economic logic. The fact that it is being seriously considered at all has already hurt our reputation for fairness in the treatment of imports and of foreign investors.

The domestic content bill's effect on my industry will be more direct and damaging than the general effects outlined above. Many of us who import will simply be forced to close our doors. My company will be one of these. If the bill as passed is successful in attaining its goals, then the market will become further dominated with domestic manufacturers. If the bill as passed is unsuccessful in attaining its goals, and we are sure that it will be, then our market will shrink as the quota takes effect. Since the bill will cause an increase in the price of new automobiles, one can expect the resultant lessened consumer demand to force the consumer to hold his old car longer. Ordinarily, the aftermarket benefits from such a state of affairs. We do not expect, however, the longer period which the consumer holds his car as a result of the bill to offset our losses from the shrinkage of our market. As our market shrinks, our entire distribution system will become inefficient and over-inventoried. The natural result will be that only a few of our warehousing systems will survive. Those of us who export will be damaged in a similar fashion as others, except that we will be harder hit since we are dealing in auto parts, the original offending commodity. Where certain markets are now opening for us, we can expect this forward progress to end.

Auto Internacional Association suggests other alternatives if Congress wishes to revitalize American manufacturers, especially those in the auto industry. For example, we commend this very committee for its favorable report of S. 44, the "Products Liability Act." It is a strong step toward putting fair limitations on what up till now was a manufacturers nearly unlimited liability. We also support the various antitrust exemptions proposed for joint research and development programs. This would aid our industry in that we are mostly small business which are unable to commit to research and development all the capital that we would like. We commend the House for its recent passage of H.R. 5041 concerning this matter. Various export incentives should be studied in order to move in a positive manner toward meeting our trade deficit. In terms of lessening this deficit, the association supports the study of methanol as an alternative fuel. Methanol is a fuel available from domestic commodities such as natural gas and coal. We commend the sponsors of H.R. 4855 and H.R. 5075 as well as the House subcommittees who have recently held hearings. The use of methanol would lessen our air pollution problem, and oil, not automobiles, is the single largest contributor to our trade deficit.

Finally, we suggest that it is time to look at the costs of the Clean Air Act. The bill's warranty provisions should be rolled back in order to lessen the cost of the sticker price of the car and to reduce repair costs. This will both increase consumer demand for new units and help our industry by allowing us to compete for repair work with the dealer.

These are positive steps which might be taken. They contrast sharply with the negative approach which is taken by S. 707 and by the likely effect of such a bill's passage. Auto Internacional Association urges you to report S. 707 unfavorably. It is ill-conceived and ill-timed. Thank you for permitting me to present the association's views on this bill.

The CHAIRMAN. I hope we don't report the bill at all, favorably or unfavorably. Mr. Runyon, you spent 37 years with Ford?

Mr. RUNYON. Yes, sir.

The Chairman. Then did you move from Ford to head of Nissan?

Mr. Runyon. Yes. I started with Ford as an hourly employee and worked on the assembly line for 3 years. I worked my way up, eventually becoming responsible for building all of the Ford cars and trucks in North America. I hate to say this, but I got tired of living in Detroit, MI, and wanted to move south, so I retired from the Ford Motor Co. to find a job in the South.

After I retired, Nissan asked me to go to work for them, and when I found out they were going to go south, I wanted to work for them.

The Chairman. When did you retire from Ford?

Mr. Runyon. June 1980.

The Chairman. So you were with Ford all during this era when the auto companies fought mileage standards that we talked about today. Tell me. What went wrong with the domestic American auto industry? Why did we ever get to the place where there was a need for protection? Was it a lack of foresight? A lack of competition? What happened?

Mr. Runyon. I think that the U.S. auto industry had a monopoly on large cars for more than 30 years, and monopolies are rather insidious things. When I say monopoly, I mean there is no other country in the world that makes large cars like the U.S. manufacturers make.

Having a monopoly, manufacturers work within the arena, so to speak. If somebody considers that wages are not high enough, the wages go up by the technique of a strike or negotiations, whatever it might be, but the wages go up. As the wages went up, the cost was passed on to the consumer in higher auto prices.

The American public has a real love affair with the large car, as has already been indicated here today. People were willing to pay the price of those large cars. Under those conditions, there was no real drive to achieve high quality and hold costs down as there would have been had there been real competition.

Then, small cars became necessary to meet the mileage requirements, and demand shifted to smaller cars after the 1978 energy crisis, bringing competition from overseas, not only from Japan but also from Europe and other countries as well.

The Chairman. Why wasn't there among the American manufacturers an awareness of a small car market? For years, how many VW "Beetles" sold in this country?

Mr. Runyon. Not enough to concern them.

The Chairman. Nobody saw it? American Motors made a stab at the small car market once in the late 1950's or early 1960's.

Mr. Runyon. Yes, but the American public didn't want small cars then. American Motors almost went broke several times. They still teeter back and forth. That was the problem. You had some people who wanted to build small cars in some companies. Those people lost their jobs because they wanted to build small cars, and they went to other companies.

The Chairman. You are going to be manufacturing small cars?

Mr. Runyon. Yes, sir.

The Chairman. You are convinced that there is a market?

Mr. Runyon. Yes, sir.

The CHAIRMAN. Yet Senator Riegle said that the manufacturers want Congress to relax the mileage standards, that it is no fault of theirs. They made the cars, but they can't sell them. Is that a valid complaint?

Mr. RUNYON. I don't know. We sold over 200,000 Sentras last year. We are building capacity in Tennessee to manufacture more of them. I think that small car sales are going to go up. I think that the higher oil prices will return, at which time the American public will go back to demanding small cars.

It's a mistake for the industry to be building large cars. I think they need to get with it. Right now they are going to be in violation of the law, as you know, by building and selling large cars.

The CHAIRMAN. I'm aware of that. They are going to be coming to Congress and asking for relief. Are you stating that the major automobile manufacturers are making a mistake in judgment of what America wants to buy? You are banking on the fact they are going to want small cars?

Mr. RUNYON. I think over the long term, the small car market is where it's at, so to speak. A lot of people have gone from large to small trucks. We are convinced that is what the market is going to be. That is why we are in the small car and small truck manufacturing business.

The CHAIRMAN. I might mention again the van I recently purchased. My wife really wanted it. The reason she wanted it is that she is an antique buff. Tables won't fit in a station wagon. It has 42-inch clearance, doesn't need a large one, doesn't want a full one, and Chrysler saw the need and moved into it.

Mr. RUNYON. It is a very successful product, yes, sir.

The CHAIRMAN. I get so frustrated with the American automobile manufacturing industry, and you more or less corroborate what I said earlier. So long as they pay the same wages, and basically they all pay the same wages, it doesn't matter what the wages were so long as there is no competition.

Mr. RUNYON. Today the wages are 80 percent higher than the U.S. average manufacturing wage, and also 80 percent higher than automobile wages in Japan.

The CHAIRMAN. There was an industry study done, looking at such factors as educational background, age of different work force elements, for the timber industry, the chemical industry, and the automobile industry. There is nothing significantly different about the educational background or the average age of the auto worker as opposed to the sawmill employee. Yet the sawmill worker makes $7 or $8 an hour, the worker in the automobile industry is paid $12 or $13, not counting fringe benefits.

One of the reasons was effective organization. So long as they pay them the same wages and the Government guaranteed them a profit, it doesn't matter what they paid.

If our standards are to be that we will protect every industry that has a higher wage than some other country, I guess we are going to protect all our industries. We are going to protect our farmers, too, and we will literally become an island. What is that going to amount to is higher prices and less quality on everything for everybody.

Mr. **Runyon**. Senator, I would like to say there is nothing wrong with paying high wages, but you have to have high productivity to go with higher wages. If you don't have the productivity to go with those wages, you are not going to be competitive. Competition is key.

I heard it said here several times today that Japan's market is closed for automobiles, and the U.S. market is wide open. That's simply the opposite of the truth and I would like to correct the record. The United States is not wide open. There are so-called voluntary restraints on cars in place right now; also, we levy a 25-percent tariff on trucks. There is a 4- to 5-percent tariff on cars.

In Japan, there is no tariff, there are no restraints. Any U.S. manufacturer who wants to can sell vehicles in Japan. They haven't made the long-term commitment, that they want to build a market there. They can go over there and get into that market if they want.

I have a personal experience on that score I can tell you about. When I was working for Ford, some people decided they wanted to build 10,000 Mustangs and sell them in Japan, so they came to me. I was in charge of manufacturing. I said that's fine. It's going to cost me several million dollars to tool to build these Mustangs, and it's not going to be cost-effective, so, tell me, what is the long-term plan? Well, they said, we don't have a long-term plan, but we will sell these 10,000. Well, we didn't build the 10,000.

When a company makes up its mind that it wants to sell in Japan. It's a big market. All you have to do is get competitive. This domestic content legislation takes away the ability to be competitive and the drive to be competitive. Our industry will never be competitive in any market, abroad or at home, with domestic content.

The **Chairman**. When I was in Japan a year ago I met with Mr. Toyota, Sr., and his nephew, and I asked about the restrictions on American cars. They have a tax on large cars.

Mr. **Runyon**. They have a tax on any large car, whether made in Japan or in the United States. Another thing about taxes is that the effective tax rate on Japanese manufacturers is 51 percent. The effective tax rate on U.S. manufacturers is about 26 percent.

And by the way, several U.S. automobile companies are not paying any taxes these days.

The **Chairman**. Chrysler is not paying any right now.

Mr. **Runyon**. Yes, and some other companies are not paying full taxes.

The **Chairman**. Porsche has sold a fair number of cars there, Volkswagen has too but we won't make a car that has a right-hand drive, which is what you need for Japanese roads.

Mr. **Runyon**. The Japanese, in order to get in our market, make left-hand drive cars there. They build them in Japan to meet all our safety and pollution control standards, and drive them into the dealerships. We don't do that.

We take the cars we manufacture to U.S. standards, ship them over there to Japan, and then make the changes at homologation centers to meet Japanese standards, and all of a sudden the price goes very high.

The Chairman. The argument has been raised that Japan makes us make those changes. Indeed, they make us make them. It's the same thing they have on their cars.

Mr. Runyon. The Japanese have standards for their cars; we have standards for our cars. They are no more restrictive than we are. It's a matter of how the manufacturers have chosen to approach the manufacture of vehicles for export.

The Chairman. I wish you good luck. I want to ask one thing. Is it indeed true that your productivity in Tennessee is as high as your plants in Japan?

Mr. Runyon. Our productivity at the present time is not quite as high, but within 1 year we are going to be better than Japan. Our quality right now is already better than our sister plant in Kyushu, Japan.

The Chairman. How many Japanese officers do you have?

Mr. Runyon. We have 2 vice presidents and 13 other engineers and product designers.

The Chairman. That's it? The rest are American employees?

Mr. Runyon. That's right.

The Chairman. Tell me, how can you do it? What is the key? Why are you so successful? Why cannot American companies do it or haven't done it?

Mr. Runyon. I think we are successful because of the management philosophy we have accepted.

The Chairman. Did you notice the difference from when you were at Ford?

Mr. Runyon. Yes, sir. We think that the people who do the job should have a say in how the job is done. We just don't use people's minds enough in this country. We need to have people be proud of themselves and what they are doing. We make it possible for them to be able to submit suggestions, to submit ideas, to make it happen.

The people who build our vehicles in Tennessee, they not only manufacture the vehicles, they do their own inspection on the vehicles and their own maintenance on the tools they work with. They have complete responsibility for doing their job.

We don't have a lot of inspectors in our operations. We don't have inspectors except at the end who take a look at the vehicle from the customer's perspective. We don't have inspectors for making sure it is correct. Everyone's responsible to be sure its done right to begin with— and it works.

The Chairman. What you are telling me is that that is not just an Oriental philosophy that works in Japan. That is a philosophy that works as well with Occidentals here.

Mr. Runyon. It works very well in many companies here. Senator Riegle said he worked for IBM. Well, this philosopy works at IBM, it works at Alcoa and it works in a lot of companies.

The **CHAIRMAN**. We have grown up with antagonistic relations with labor and management and we cannot deal with each other in a normal sense? Is that the problem?

Mr. **RUNYON**. It has been a very adversarial relationship. It is a big part of the problem in the U.S. auto industry today and it is something all of us at Nissan in Tennessee are working very hard to ensure doesn't happen in our operations.

The **CHAIRMAN**. Thank you very much. Gentlemen, thank you very much for waiting so long. I appreciate it. We are adjourned.

[Whereupon at 1:30 p.m. the hearing was adjourned.]

# ADDITIONAL ARTICLES, LETTERS AND STATEMENTS

## Statement of Hon. Terry Branstad, Governor of Iowa

I am pleased to have this opportunity to submit testimony to the Senate Committee on Commerce, Science and Transportation regarding S. 707, Fair Practices in Automotive Products Act. This issue has great impact on the State of Iowa and needs careful review analysis.

Although I understand and sympathize with the plight of the auto industry, this legislation is not the cure for the problem. The automobile industry has begun to rebound, and it would be unwise to sumbit other areas of our economy to extended hardships in return for accelerating this recovery. If this legislation were enacted, other areas of our economy would be adversely affected due to the retaliatory measures America's trading partners would take.

The agricultural sector is particularly vulnerable. Japan and the European Community together purchase well over one-third of total U.S. agricultural exports. They purchase nearly half of all U.S. exports of corn, soybeans and soybean meal. If "The Fair Practices in Automotive Products Act" is enacted, it is very likely that the exports of U.S. commodities would be substantially reduced. In turn, this would seriously reduce U.S. farm cash receipts, harming farmers and the industries serving them. This is especially significant in Iowa, where eight out of ten jobs are either directly or indirectly related to agriculture.

Additionally, many of the requirements of this proposed legislation violate current treaty obligations of the U.S. relating to agricultural and other products. For instance, the legislation is in direct conflict with GATT article III, which provides that no contracting party to GATT "shall establish or maintain any internal quantitative regulation . . . which requires, directly or indirectly, that any specified amount or proportion of any product . . . must be supplied from domestic sources." Other portions of the same article provide that imports from another party "shall be accorded treatment no less favorable that that accorded to like domestic products" and that "internal quantitative regulations requiring the mixture, procuring or use in specified amounts or proportions—should not be applied . . . so as to afford protection to domestic production." Similar national treatment provisions are also included in commercial treaties which the U.S. has with the Federal Republic of Germany, Italy, and Japan.

The sanctions of this bill, limiting the importation of automobiles of foreign producers which fail to comply with the minimum domestic content ration, amount to a quota system. They would violate the prohibition in Article VI of GATT against "restrictions other than taxes or other charges . . . on the importation of any product of" another contracting party.

In addition to the above reason, S. 707 would constitute a major setback in U.S. trade policy.

U.S. policy has consistently and properly supported free and open trade. Maximum benefits to all nations' economies are achieved under an open-trading system in which countries specialize and exchange products freely. This policy, with its admitted imperfections, has fostered tremendous worldwide economic growth for over thirty years.

Presently, the international trading system is currently under severe pressure. The Administration is dealing with this pressure by pursuing a careful strategy of reciprocal trade liberalization. U.S. adoption of a domestic content law would be viewed as a renunciation of that policy. It would cause irresistible pressures—particularly in Japan and the European Community countries—to abandon the free-trade system.

Rather adoption of local content requirements will lead to many requests by other industries for similar legislative protection. There will be no basis for distinguishing these industries from the auto industry. This would cause the free-trade system to deteriorate even further.

Domestic content requirements undermine the integrity of existing, carefully developed laws which Congress has previously adopted to deal with excessive or unfair trade competition. If these laws are not adequate, they should be reviewed and improved. They should not hastily be abandoned.

The current difficulties in the auto industry have not been caused by imports alone. They have been caused by the recession, high interest rates, a shift in consumer demand to smaller, fuel-efficient autos, high U.S. production costs and similar factors. Domestic content requirements are not an appropriate way to respond to these essentially economic problems. The U.S. auto industry is improving and management is already taking effective steps to restructure itself. The government has assisted it with a program of economic incentives, regulatory relief, and voluntary trade liberalization aimed at achieving those goals.

Basically, if domestic content legislation were enacted, a net loss of jobs would be caused. Some jobs in the auto sector would be protected. Other jobs in the auto sector—such as those related to foreign car dealerships, U.S. assembly operations of foreign manufacturers, and port facilities—would be lost. The net result to the auto industry would be essentially neutral or negative. However, tens of thousands of jobs related to the $15 billion of U.S. agricultural exports, which are vulnerable to retaliation, would be lost as countries reacted to the U.S. legislation.

In summary, this legislation would help parts of the troubled automobile industry at the expense of the agricultural sector (e.g., corn, soybeans, livestock) and, high technology industries (e.g., electrical components, office equipment, aircraft). It would reward parts of a troubled perhaps less productive, industry at the expense of highly productive and growing industries. I believe it would have an adverse effect on not only Iowa's economy but on the entire U.S. economy. Therefore I would urge rejection of this legislation.

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## STATEMENT OF RICKY SMITH, PRESIDENT OF STEVEDORING SERVICES OF AMERICA

I am F. D. (Ricky) Smith, president of Stevedoring Services of America. Stevedoring Services of America is composed of three companies—the former Seattle Stevedore Co., Seattle, Washington; Brady-Hamilton Stevedore Co., Portland, Oregon; and Crescent Wharf and Warehouse Co. of Wilmington, California.

This company performs loading and unloading of ships which includes all types of cargo, from break-bulk to heafy lifts, autos, trucks, and containers. All of our Stevedoring personnel are drawn from the International Longshoremen and Warehousemen's Union, whose international headquarters is in San Francisco, California.

Over a period of years, through the cooperation of the union and management, there has developed a qualified and highly productive work force.

Over this same period of time there has been government and citizen groups desiring to restrict either or both export or import of trade items.

The United States of America cannot exist without the export of or products, or can we manufacture certain items without the import of certain raw materials in order that we can manufacture the finished products.

Today there is a voluntary quota of automobiles from Japan. Since this quota became effective, the price of Japanese cars has increased nearly $1,000, as the cars come equipped with added extras. Likewise, the cost of domestic cars has increased nearly $600. The purchasers of autos are the losers.

America became great operating under the supply and demand theory of commerce and trade.

The ports of Washington, Oregon and California discharge in excess of 40 percent of all automobiles and trucks that enter the United States. The manhours and payroll from these commodities constitutes a large payroll in the Stevedore business, auto processing, and rail and truck transportation. This payroll would be lost if S. 707 were to pass.

When govermental restrictions of trade occur, retaliation most likely will occur by our trading partners. The States of Washington, Oregon and California sell great quantities of agricultural products to the world markets.

Please do not disrupt existing export and import trade by passing this ill-conceived legislation. We urge strong consideration of our protest and vote against S. 707.

Thank you for permitting me to present this statement.

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## STATEMENT OF OREGON PUBLIC PORTS ASSOCIATION

The Oregon Public Ports Association represents the interests of Oregon's 23 public port districts. The Association works for passage of legislation designed to improve the use and efficiency of Oregon's ports. We believe active, unrestricted international trade is a cornerstone to a healthy economy. For this reason, we oppose the concept and the letter of the Domestic Content bill as an unnecessary, and ill-conceived barrier to Pacific Rim trade.

Japanese imports and exports are a primary element in the active Pacific Trade Rim, which forms the basis of Oregon's overseas commerce. For the Port of Portland alone, one-third of all international trade is attributable to Japan. Shippers, longshoremen, truckers, distributers and a chain of others, working with an in Oregons' public ports, owe their jobs to this trade.

The Domestic Content, by barring Japanese autos not containing mostly American parts, will have both direct and indirect negative impacts on our trade relationship with Japan. A recent study showed the annual statewide impact of auto imports accounts for over 9,300 jobs, and $248 million.

Indirectly, we are concerned about more far-reaching effects. This introduction of protectionism will surely antagonize Pacific Rim trading partners of the U.S., and may invite reciprocal measures. Japan could levy similar restrictions on American imports effecting Oregon ports that ship a large volume of agricultural and timber products. Potentially, West Coast shippers may be forced to consolidate operations to account for reduction in Japanese trade. Smaller ports and their tenants may be consequently eliminated from competition.

Oregon ports have worked hard to attract new trade into the Columbia River system, and are showing steady progress in obtaining new business from Japan and other Pacific Rim countries. Passage of this proposed legislation would clearly set back this effort.

Proponents of Domestic Content argue the law is necessary to promote recovery of America's auto industry. We believe this is a false assertion. Protectionism will not solve the problems plaguing auto makers, namely high interest rates, failure to respond to consumer demands, and declining product quality. Recent reports from Detroit indicate the industry is farther along toward recovery than was earlier believed, making this measure unwarranted.

A clear look at the Domestic Content bill shows its' adverse effects outweigh its benefits. In consideration of how damaging it may be to Oregon's ports and port activities, we strongly urge the Senate not to pass this bill.

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## STATEMENT OF RICHARD D. FORD, EXECUTIVE DIRECTOR, PORT OF SEATTLE

On behalf of the Port of Seattle, I would like to register our opposition to S. 707, the automobile domestic content bill. This legislation, if enacted, would in all likelihood seriously reduce the number of auto imports transiting our docks and those of many other United States ports. In addition, this type of protectionist legislation would increase the risk of retaliation by our major trading partners, thereby potentially reducing our export trade in U.S. manufactured goods and commodities.

Importation of automobiles is an important element of trade for ports throughout the United States, and results in direct and indirect U.S. jobs. In 1983, for example, the Port of Seattle moved 94,000 imported vehicles through Seattle. This activity related to over 150 full time equivalent jobs and a significant number of indirect jobs in the King County area.

Passage of this legislation could also have a significant detrimental impact on the importation of auto parts. For instance, Nissan recently began assembling light weight trucks in Nashville, Tennessee. While a considerable amount of U.S. parts and materials are used in these vehciles (thereby creating economic opportunities for American business), this enterprise also relies on the importation of foreign parts. In the last quarter of 1983, 6,486 metric tons of auto parts destined for this plant moved through the Port of Seattle. This activity translates into an average of 70 containers a week moving across our docks. As a result, Nissan is now the Port's 11th largest single import customer. Application of the domestic content requirements of S. 707 would stifle this growing import trade.

If those foreign countries with strong automobile manufacturing industries were to retaliate against the United States based upon S. 707, such retaliation could significantly affect our export trade. Approximately 40% of the Port of Seattle's export trade, for example, is currently with Japan. Agricultural and forest products, which are two of Washington State's major industries, currently account for over 50% of the Port of Seattle's export trade by value. Retaliatory legislation by the Japanese in response to the proposed domestic auto content legislation could again seriously impact the Port of Seattle and all U.S. agriculturally-based economies.

Finally, it should also be considered that auto quotas do not even appear to be successful in stemming the flow of American dollars to Japanese companies. There are indications that, to compensate for the export of fewer vehicles (resulting from the current voluntary export limitations), Japanese manufacturers are meeting the American consumer demand with more expensive, and more labor intensive, cars. As a result, the total revenues of these companies are increasing at the direct expense of the needs of the American consumer.

In conclusion, we would like to note that although the automobile domestic content legislation is perceived as increasing jobs through preserving the automobile manufacturing businesses in the United States, it may in reality reduce jobs nationwide by impacting the export/import trade.

We strongly urge you, after considering all the implications of S. 707, to oppose this legislation.

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## STATEMENT OF NATIONAL ASSOCIATION OF STEVEDORES

The National Association of Stevedores opposed H.R. 5133, predecessor of S. 707/H.R. 1234 before the Trade Subcommittee of the House Ways and Means Committee on September 28, 1982. In May of 1983, the NAS submitted a statement to the Subcommittee on Commerce, Transportation and Tourism of the House Energy and Commerce Committee. That statement reiterated the Association's concerns about H.R. 1234. In September of 1983, the NAS again submitted an official statement to the hearings conducted by the Trade Subcommittee opposing H.R. 1234. Therefore, we appreciate the opportunity to restate our opposition to S. 707/H.R. 1234, the so-called Fair Practices in Automobile Products Act.

The National Association of Stevedores is a trade association whose 49 privately owned member companies engage in stevedoring and marine terminal operations on all four of the nation's seacoasts, the states of Alaska and Hawaii and the Commonwealth of Puerto Rico. NAS member companies contract to load and unload ships which call at this country's ports in both domestic and foreign commerce and employ longshore labor to accomplish those functions.

Recent Department of Commerce statistics show that over 95 percent by weight of this nation's foreign commerce moves by ships, ships that are loaded or unloaded by NAS member companies and the American longshoremen they employ. Enactment of S. 707/H.R. 1234 or any other legislation which would impose artificial barriers to the commerce of the United States must be vigorously opposed. Such legislation is contrary to this country's commitment to free and unencumbered trade and invites retaliation from our partners in trade worldwide. Such legislation has a direct, severe and immediate adverse impact upon the NAS member companies and their employees. It eliminates or reduces their employment. To attempt to create jobs for one industry and its employees at the expense of another simply doesn't make any economic sense, even though, there are those who think it might make domestic political sense.

The stevedoring/marine terminal industry and its employees will be the first to feel the severe impact of the implementation of S. 707/H.R. 1234. The Department of Transportation in a letter to Congressman Dingell, dated July 16, 1982, stated that fact most explicitly, and I quote:

"Unemployment in the Nation's ports would result from the loss of 1.9 to 2.9 million automobile imports. We anticipate that 7,600 to 11,600 direct jobs would be lost and 53,200 to 81,200 indirect jobs would be in jeopardy at 14 ports on the East, West, and Gulf Coasts. These ports and potential jobs losses are: Boston (900–1,300), New York (7,700–11,700), Baltimore (6,500–9,900), Hampton Roads (2,200–3,400), Jacksonville (6,200–9,400), Tampa (900–1,300), Houston (4,200–6,400), Long Beach (6,200–9,400), Los Angeles (6,000–9,200), San Francisco (500–700), Oakland (1,000–1,600), Portland (4,900–7,500), Seattle (4,500–7,000), and Savannah (500–700).

These figures are reinforced by an actual survey which the NAS recently conducted in order to determine what impact this bill might have on particular stevedores and their longshore employees. The following results have been reported directly to the NAS. Although these figures are not complete, they show the magnitude of labor involved in discharging foreign autos. Most port personnel estimates that anywhere from three to five manhours of port labor are generated for every longshore manhour involved in discharging a vehicle.

| Stevedore company | Vehicles handled (1982) | Longshoreman-hours [1] (1982) |
|---|---|---|
| 1. Metropolitan Stevedore Co. (California) | 101,177 | 3,049 |
| 2. Crescent Wharf & Warehouse (California) | 200,615 | 86,322 |

| Stevedore company | Vehicles handled (1982) | Longshoreman-hours [1] (1982) |
|---|---|---|
| 3. Brady-Hamilton Stevedores, Seattle Stevedores (Washington & Oregon) | 172,350 | 50,410 |
| 4. John J. Orr & Son (Rhode Island) | 65,000 | 30,000 |
| 5. Lavino Shipping Co. (Virginia & Maryland) | 113,700 | 70,365 |
| 6. Global Terminal & Container Services (New York) | 1,332 | 1,000 |
| 7. Christina Service Co. (Delaware) | 692 | 470 |
| 8. Maher Terminals, Inc. (New Jersey) | 180,000 | 61,000 |
| 9. Strachan Shipping Co. (Georgia) | 150,000 | 35,000 |

[1] Approximate.

The proponents of S. 707/H.R. 1234 have given no explanation or justification as to why longshoremen and port related employees should be placed on the unemployment rolls, in order to provide a few jobs for autoworkers.

Others will testify about the financial impact of S. 707/H.R. 1234 on domestic auto prices and other related products, but there is another inevitable cost impact which has to be considered. Stevedore and marine terminal companies have substantial fixed operating costs, including terminal rentals, property taxes, equipment financing, maintenance and repair costs, and in some ports guaranteed annual wage payment commitments under collective bargaining agreements. Those costs remain constant despite the amount of work and must be paid, or bankruptcy declared. If there is a substantial loss of revenue due to the loss of the estimated 1.9 to 2.9 million annual automobile imports, that revenue loss most come from another source. The only source available to NAS members is other American imports or exports. Stevedore/marine terminal operators would be obliged to raise their charges to other customers who in turn must raise theirs. The American consumer or exporter then ultimately will pay the increased cost. In the end, everyone ends up subsidizing the American auto industry and its workers. That is not fair and makes no economic nor political sense.

The NAS is unalterably opposed to S. 707/H.R. 1234 or any other attempt to impose artificial and unwarranted barriers to the free trade of this country.

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## Statement of David J. Steinberg, President, U.S. Council for an Open World Economy

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

S. 707 (improperly named the Fair Practices in Automotive Products Act) would establish minimum domestic-content requirements for automobiles sold in the United States. Designed by the automobile workers union to regain for unemployed U.S. auto workers the jobs they have lost in recent years as foreign manufacturers won unprecedentedly large shares of the greatly changed U.S. automotive market, this bill would be abysmally counterproductive. In addition to the faults outlined below, it would pose costly adminstrative burdens for U.S. auto makers, foreign auto makers, and U.S. government officials entrusted with enforcement of such legislation. The terms I used in opposing a "reciprocity" bill introduced last year in the Senate are no less apt (in fact, they are more so) in describing domestic-content legislation: such legislation would be a cross between a Pandora's box and a can of worms—a cross which the American economy, and the U.S. auto industry itself, should not have to bear.

To the extent that it significantly reduced U.S. auto imports, such legislation would restore jobs to some unemployed U.S. auto workers and some of the unemployed in related U.S. industries at the cost of a significant number of good jobs likely to be lost in other sectors of the U.S. labor force (including many jobs in which the auto workers union has a stake). The offsetting loss of jobs would result from the loss of U.S. exports in the wake of foreign emulation of such domestic-content practices, retaliation against such U.S. measures by countries directly disadvantaged by them, and reduction of foreign purchasing power as world trade and income declined. Such legislation would be in violation of the international code of fair competition (the General Agreement on Tariffs and Trade), and would impair the efforts the United States is making to gain and sustain freer access to major foreign markets (including automobile-producing countries) for goods in which our economy excels. Many foreign countries would feel even less inhibition against establishing or magnifying domestic-content or other import curbs, and could be even more resistant to U.S. efforts to get existing restrictions reduced.

Such legislation, establishing the highest domestic-content quotas (as high as 90 percent) for auto producers with the largest sales in the U.S. market, would seriously obstruct efforts the U.S. auto makers should make (and should not cease making) to market automobiles of the highest quality and at the lowest possible price. It would obstruct these efforts by seriously curtailing the flexibility of these manufacturers in their choice of sources of supply for the multiplicity of parts that go into production of automobiles. Although the ingredients of domestic content include advertising and other items that are not "blue collar" production costs, thus tending to lessen the domestic-content requirement for American-made parts, this does not redeem this kind of legislation.

Aside from the effects which economic recession may exert, the bill's potential for restoring U.S. auto jobs is significantly restricted by rising automation in the auto industry, and in the short run (the period of severe hardship for unemployed and underemployed U.S. auto workers) by the considerable time required for construction of U.S. production lines by foreign automobile manufacturers who decide to produce automobiles in the United States. These factors only amplify the many drawbacks of legislation like S. 707 and, in turn, amplify the need to seek more-productive, more-prudent ways to help the U.S. auto industry and both the auto workers still making automobiles and those who are not.

In view of the emulatory and retaliatory implications of such legislation for U.S. exports of a wide range of manufactured goods in which this country has a highly rewarding export business, the long-term tendency would be for the United States to become less and less an exporter of manufactures, and proportionately more an exporter of agricultural and mineral products, as increasing numbers of countries followed our example in setting domestic-content rules. It would be unrealistic to assume that automobiles would be the alpha and omega of U.S. recourse to such practices. Other sectors of our economy would be likely to seek similar privileges. Instead of joing the list of countries resorting to such practices, we need a strategy aimed at removing domestic-content rules wherever they exist.

Those who support bills like S. 707 on the thesis that, in the face of substantial barriers impeding U.S. access to foreign markets, America needs to act tough (that sparkling buzzword some people find so appealing) are neglecting the enlightened, productive and responsible ways a country like ours should act tough both in the foreign-policy and domestic-policy dimensions of the current trade challenge. Those who say we should not be "patsy" to aggressive foreign designs on the U.S. market—and that we should restrict our own imports to prove our determination for action—are themselves "patsy" to highly regressive schemes to reveal our resolve. A country that responds to intense foreign competition, and to objectionable barriers impending U.S. access abroad, primarily by socking its own consumers with import curbs is surely shooting itself in the foot. A protectionist ploy intended as an anti-protectionist tactic to induce freer trade abroad is an exercise in self-deception. The U.S. response to protectionist proliferation around the world should not be to sink into that regrettable rut but rather to raise the world's sights with a radically progressive strategy aimed at programming totally free trade and totally fair trade in concert with whatever countries care to participate in such a charter. Our Council—our Council alone—has urged such an initiative. The reciprocity our country seeks should be the ultimate in progressive reciprocity (free trade itself), not regressive reciprocity that ratchets trade restrictions upward and trade downward. The required strategy is outlined in presentations our Council has made to other Congressional committees, including the Finance and Foreign Relations committees of the Senate.

The U.S. labor movement, concerned over the United States losing its impressive shares of world markets in industrial goods and possibly becoming predominantly an exporter of crude materials, should be opposed to bills like S. 707. The fact that the U.S. labor movement (not just the auto workers) supports and indeed campaigns for this bill—legislation threatening heavy costs to the nation as a whole and to many sectors of the labor movement's own constituency—suggests that the American labor movement's own constituency—suggests that the American labor movement (with too few exceptions) may be sinking into a policy bankruptcy that impairs, not only the nation's enlightened self-interest, but also the credibility of the labor movement's concern for the national interest and the wisdom of its positions on other issues.

When the adverse implications of domestic-content legislation for U.S. inflation, productivity, trade policy and overall foreign policy are considered, it is hard to believe that the prime mover behind this bill is the same labor movement that has done so much—often ahead of other sectors of our society—to advance the nation's best interests. As an old friend of the American labor movement, I continue to expect great things from it. There is much that labor can and should do to prod the government, the business establishment and the public at large to face up to the nation's most pressing needs with deliberate speed and intelligent ingenuity, and in a manner consistent with the nation's highest ideals. With this bill, labor is letting the nation down.

Strong criticism should also be directed at the Administration for not having a coherent domestic redevelopment, full-employment strategy which could have raised the sights of the auto workers, the labor movement in general and the nation as a whole to enlightened policies and objectives that would have diverted energies away from radically regressive propositions such as the policy abomination advocated in this bill.

No less deserving of criticism is the "liberal trade" movement itself for not campaigning for such a redevelopment strategy, which is indispensable, not only to the free-trade strategy that our Council alone has urged, but to the less far-reaching, "freer trade" goals with which the "liberal trade" movement as a whole is currently identified.

## STATEMENT OF RICHARD STEFFEN, PRESIDENT, IOWA NATIONAL FARMERS ORGANIZATION

Mr. Chairman and Members of the Committee, I would like to express my support for the proposed Domestic Content Senate File 707 legislation.

It appears to me that without the protection that this legislation addresses the American worker and his family will suffer from more unemployment and more instability in the work place.

To explain the way I see it let me give these figures. I will do this with a couple of farm commodities:

In the years 1980, 1981, and 1982 the United States imported nearly four times more red meat then was exported.

In the years 1980, 1981, and 1982 the United States imported three times more dairy products than we exported.

With these kinds of imports the United States imported the surpluses in these commodities that have had a very depressing effect on the prices received by the American farmer.

It appears to me that if the imports of manufactured items are not regulated the United States will be an importer of more unemployment and uncertainty in the labor forces.

This would lead to less demand for farm products, hence lower prices for them, more farmers leaving the farm, when they do leave they join the ranks of the unemployed.

## STATEMENT OF JACK SHEINKAM, SECRETARY-TREASURER, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION

My name is Jack Sheinkman. I am Secretary-Treasurer of the Amalgamated Clothing and Textile Workers Union. Our union used to have some 19,500 members making auto component products such as carpeting, upholstery fabric, soundproofing panels, tire cord, seat belts, and interior trim like visors and arm rests. That was in 1978. A few years later our membership in the auto-related sector had declined to 12,500, a loss of 7,000 jobs. Since 1978, eight of our plants making these products have shut down completely, and those which have managed to continue operating have seen their workforce shrink drastically.

For example, our union has had the Allen Industries plant in Herrin, Illinois under contract for many years. The only product made there is soundproofing panels for automobiles. In 1978, there were 660 employees. Mainly as a result of auto imports, only 350 are working there now. Williamson County in southern Illinois, where the plant is located, has traditionally been a coal mining area. The slump in that industry has added still more people to the jobless rolls. The unemployment rate in the area now stands at 19.6 percent. One of our members, Paul Restivo, was formerly the president of the local union at Allen Industries. He has said the layoffs are "very depressing for the whole area. People are just unable to get new jobs. They either run out their unemployment insurance benefits or they have to move somewhere else. My friends have applications in everywhere but just can't find work anywhere."

The unions in the soft-goods industries—apparel, textile, shoe, and headwear—have waged a long campaign against the ravages of excessive imports. The workers in our industries began to feel the effects of the unemployment and disruption caused by imports as far back as the 1950s. But we thought that our members who were making auto-related products would be untouched by import pressures. We were wrong. Now, unfortunately, almost all sectors of American industry have come face-to-face with the consequences of this country's "free trade" policies in a world of managed trade relations and manipulated exchange rates.

The rapid increase in imports of automobiles has taken a heavy toll on that sector of the textile products industry making auto components. For example,

- There were 9,000 fewer production workers employed making automotive and other trimmings in 1982 than there were in 1978.
- The poundage of textile fibers used in making automotive products fell by over 34 percent from 1976 to 1982, from 645 million pounds to 425 million pounds. (See Table 1.)

It is well known that fewer cars are being made in America because imports have taken a larger share of the market. Compounding this problem for our members is the fact that the smaller cares now being made in the U.S. require fewer components made of textiles.

Soundproofing panels for automobiles are made out of pressed textile fibers. Because of the trend in "downsizing," the poundage of sound deadeners going into the average Ford car has been cut almost in half, from 85 pounds per car in 1977 to only 46 pounds in 1982. When this is combined with a 52 percent drop in the number of Ford cars made in the U.S. in this period, the result was a huge 74 percent decline in the poundage of sound deadeners going into Ford cars in this country. (See Table 2.) This "double-whammy" of imports and downsizing has taken place at the other auto companies too.

The trend to smaller, fuel-efficient cars in an age of high gas prices and finite fuel supplies was probably inevitable. But it is not inevitable that we permit our dometic auto industry and our auto parts industries to be overwhelmed and ruined by unregulated importation of automobiles. A necessary and major step in coming to grips with this critical problem is the passage of S. 707, the Fair Practices in Automotive Products Act. We fully support the effort to enact this bill into law.

Finally, I believe our experience with textile fabric imports is relevant here. Import restraint in the 1970s through our textile quota agreements with exporting nations provided a measure of market stability. This allowed companies to make the major investments needed to modernize. The U.S. textile fiber and fabric industry is now the most productive in the world, and until the strengthening of the dollar in 1982, even enjoyed a positive balance of trade in textile mill products. I think that this experience can serve as a model which is applicable to the auto industry.

Unfortunately there was another experience affecting textile imports that augurs poorly for the automobile industry if S. 707 is not passed. When textile bilateral agreements with major supplying countries were renegotiated in 1982, certain quota limits were dropped. The result has been a devastating resurgence of imports of textile mill products, accompanied by a new loss of jobs in that sector.

We need to avoid this situation for automobiles. Thus, this bill is a necessary first step in starting this process for that industry.

### TABLE 1—POUNDAGE CONSUMPTION OF TEXTILE FIBERS BY THE U.S. AUTO INDUSTRY, 1976 AND 1982

| | Total fibers consumed by U.S. textile industry (millions of pounds) | Fibers consumed by automotive products [1] (millions of pounds) | Auto as percent of total |
|---|---|---|---|
| 1976 | 11,796 | 645 | 5 |
| 1982 | 10,431 | 425 | 4 |
| Percent change, 1973–82 | −12 | −34 | |

[1] The total of "transportation fabrics" plus "tires".

Source: Textile Economics Bureau, Inc., Textile Organon. September/October 1983.

TABLE 2.—CONSUMPTION OF SOUND DEADENERS IN U.S.-MADE FORD PASSENGER CARS, 1977 AND 1982

| | Pounds of sound deadeners (average per car) (1) | Number of U.S.-made Ford cars [1] (in model year) (2) | Estimated total consumption of sound deadeners in U.S.-made Ford cars (pounds) (3) [(1)×(2)] |
|---|---|---|---|
| 1977 | 85 | 1,560,793 | 132,667,000 |
| 1982 | 46 | 750,977 | 34,545,000 |
| Percent change, 1977-82 | −46 | −52 | −74 |

[1] Ford Division of Ford Motor Co.

Source: Column (1): Forbes, Nov. 22, 1982; Column (2): Ward's Communications, Inc.

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## STATEMENT OF GLORIA SENFTNER

Mr. Chariman and members of the committee, I appreciate the opportunity to present my views on S. 707, the bill to require local content for automobiles sold in the United States. My name is Gloria Senftner. My husband and I own and operate four automobile dealerships in the Midwest: in Omaha, Nebraska; Sioux City and Des Moines, Iowa and Herreid, South Dakota. My husband has been in the car business since 1960. I graduated from the University of Chicago Law School and practiced law in the Midwest until 1970 when I also joined my husband fulltime in the automobile business.

Mr. Chairman, our business has been adversely affected by the Japanese voluntary export restraints. This is consistent with the 7,000 American businessmen and their 165,000 employees who are engaged in the sales and service of imported automobiles throughout this country. Judging from what has happened with just the imposition of restriction has given us cause for concern with the consequences of S. 707.

What was the impact of the voluntary restraints on our dealerships and how can we judge the same? Three of our dealerships are Mazda franchise duals which were directly affected by the voluntary restraint act. In 1981, we sold 850 Mazdas; in 1982, we sold 549 Mazdas; in 1983, we received and sold 484 Mazdas—a 44% drop from 1981. What happened when we had this huge drop in merchandise? Our advertising budget was slashed 17% from $225,345 in 1981 to $187,566 in 1983. We deferred necessary blacktopping work and other maintenance items on our dealerships. We delayed capital improvements. As we sold less cars, our service business started dropping. We cut back on our parts suppliers and sublet work. Quite a few of these sublet repair shops went out of business.

We had been very proud of the fact that we were among the first of the dealer groups in this area to set up profit sharing and pension plans for our employees. In fact, our fringe benefits have been comparable to those of large major companies: two weeks vacation; seven paid holidays; five days personal time off; 100% company paid group hospitalization not only for the employee but also for his family, including disability pay and life insurance.

We had to make changes. The last time we paid profit sharing was in 1980. In 1982, we changed the five days personal time off policy. Although we did not eliminate it, we stopped paying it out at Christmas time if it was not used up. Instead we began accumulating it, to pay out at a more prosperous time. In 1983, we had to ask our employees to start picking up 50% of the group hospitalization cost. Raises were kept down to the point of embarrassment.

Finally, we had to start cutting employment. Prior to the voluntary export restraints we had a total of 117 employees with our three dealerships. By the end of 1983, we had dropped down to 88—a 25% drop. Our payroll, even with inflation, still has not reached 1981 levels.

Now who are these people who had to take the brunt of all this? Who makes up those statistics—some 165,000 full force in the sales and service of imported automobiles? Taking our three import dealerships, we find that 16% of the employees are women and 83% are men. The industry is still male-dominated. Of the 21 management positions, however, 24% were held by women. The age brackets follow: 41%

are in their 20's; 33% in their 30's; 19% in their 40's; 3% in their 50's and 3% in their 60's. Of these, 74% are starting families and just establishing households. The total offspring was 162, or an average of 2.22 children per married employee. Of the total, 65% were married and 35% were single or divorced.

Aren't these people entitled to job protection? Aren't these people as red-blooded Americans as the other ones the domestic content bill is attempting to protect?

We had a drop in employment of 25% as a result of the Japanese voluntary restraint act. Multiply this 7,000 times across the country with every import dealer. The result is scary. Consider what the more restrictive S. 707 would do. It would place a quota on the manufacturer and consequently curtail more severely the number of units available to each American import dealer. As we have already pointed out, the reduction of saleable units directly affects the profitability of an organization, thereby reducing capital expenditures, employment and possibly, existence in the automobile business. Mr. Chairman, in 1981 our combined organizations had $15,964,455 in sales and a total payroll of $1,481,052. Under the voluntary restraint act we struggle to maintain profitability. If further restrictions are imposed under S. 707, we question the possibility of survival.

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## STATEMENT OF RALPH A. SMITH, EXECUTIVE SECRETARY, OREGON CONSUMER LEAGUE

Mr. Chairman, let me thank you for the opportunity to present a statement on behalf of consumers against Senate Bill No. 707. The Oregon Consumer League has been representing Oregon consumer interests since 1966, and the board has voted to oppose domestic content legislation as not being in the interest of consumers. There are those, of course, who have ties to union groups and see factors in this legislation that override those of consumers in general. While we respect their right of dissent, we do not believe that "loss of jobs" is the immediate concern of consumers as consumers. Those with interests in employment in the domestic automotive industry will also experience the consequences of higher automobile prices if this legislaiton passes, but it is probable that in many cases their increased costs will be offset by employee discounts, bonuses, and stock options. Stated bluntly in behalf of those of us not employed by the auto industry, we will have to pay higher prices for either foreign or domestic manufactures with no offsets.

If I might speak personally, I have already had to pay the "pack" which Toyota dealers have imposed as a result of quotas. Also, as executive secretary of the Oregon Consumer League, I frequently have calls from consumers with complaints. One of the more recent calls was from a man who was shocked to find that he had paid over $1,000 more than he wished to as a result of "add-ons" which he had to take in order to get the Toyota he wanted. A neighbor spent over three months trying to get a Toyota dealer to remove the $750 tires and wheels with which he had "packed" a new Toyota van. These are not isolated instances and are a direct result of quotas placed upon foreign imports. We can surmise that this situation will go from bad to intolerable if this domestic content bill passes. Our freedom to shop for the best buy in automobiles without regard to source of manufacture will be taken from us.

Since I am speaking only from a consumer point of view, let me comment on the role which consumers have played in attempting to exercise freedom of choice in spite of efforts to limit it. I first parted company with the American automotive industry when I was living in Michigan (of all places) during the 1950's. I revolted against the "finny" monsters that Detroit was manufacturing with so little quality control that Consumer Reports made special reference to manufacturing deficiencies. I bought a Volkswagen at that time and since then, I have owned only one American-manufactured automobile, a Rambler American. This was a satisfactory vehicle but was not easily replaced, and upon its demise, I returned to Volkswagen. Subsequently I have owned a Datsun and two Toyotas. In every instance of auto shopping, I have looked for the automobile that seemed best suited to my needs and pocketbook. I have looked at American-made cars and foreign cars, and I have scrupulously followed Consumer Reports annual auto guide. In the main the American auto industry simply has not met my needs.

Further attesting to this fact, permit me to quote from Sylvia Porter's Personal Finance magazine (December 1983, p. 21):

"In the late 1970s you [consumers] began noticing that imported cars were delivering more value than American-made automobiles. As much as you wanted to support the American economy, and, even more, the American worker, you didn't want to sacrifice your hard/earned dollar. You either held on to your old car a little longer or, hard as it was emotionally, you switched from the Chevy, Ford or Chrysler you loved to Toyotas, Hondas, Volvos, or the like because they gave you more style and greater gas mileage in an era of burgeoning gas prices."

She goes on to say that this was not part of an organized effort, but it made Detroit auto manufacturers take notice.

I would be happy to ignore the patriotic element in the controversy over this legislation, but since it has been raised by some proponents of the bill, I must comment. Indeed I have occasionally been the target of innuendo concerning my proclivity for foreign-made cars. I have come across a quotation which I believe puts the matter in perspective:

"There are all kinds of government interventions in the domestic market which serve as indirect import barriers * * * [among others] but equally fashionable are the so-called "Buy National Campaigns" which reappeared in a number of Western countries during the last few years; fortunately, consumers seem to care more for price and quality than for national product labels so that this kind of protection has so far largely missed its target, even in countries with a traditionally strong national sentiment such as France and Britain." [1]

Finally, I would make passing reference to the problem of "retaliation" which opponents of S. 707 rightly forecast. The history of tariffs after 1815, when the U.S. took steps to protect infant industries, has been an ever-increasing controversy between those who benefit from protection and those who do not. But attempts at protectionism have always brought forth some kind of trade restrictions imposed by trading countries against whom protection has been aimed. There are those who will argue that Japan's protectionist policies have hurt the U.S., and therefore, if any retaliation is involved, it is the U.S. that must retaliate with measures such as S. 707. Retaliation is a dangerous game and often ends with no winners but many losers, namely general consumers in each country in the contest. I concur with Doreen L. Brown, president of Consumers for World Trade, who is working with consumer groups in all trading countries to get them aroused to the detrimental effects of protectionist policies. Rather than "retaliation," let us continue to negotiate with all trading countries for the reduction of artificial barriers imposed by governments against foreign imports.

## STATEMENT OF THE WASHINGTON STATE GRANGE

The Washington State Grange represents approximately 70,000 members in farm and rural areas in the State of Washington. We are the largest general farm organization in the state and the largest state Grange organization in the nation. The purpose of this statement is to oppose S. 707 and any similar legislation under consideration by the Congress.

Over the years, as trade deficits have grown, it has been agricultural exports which have kept those deficits from becoming enormous. We feel strongly that the exportation of agricultural commodities and technologies would be hurt by protectionist legislation.

We understand the frustration of some industries, such as automobile manufacturers, when foreign products are taking a large share of their potential market. However, the reaction to that frustration is exactly the opposite of what it should be. Instead of limiting foreign presence in our markets, we should deal with this competition in a competitive manner. We in the United States live in a free market economy. It is our opinion that the "free market" should extend to world trade as much as is practicable.

We suport the present system of international trade as outlined in the General Agreement on Tariffs and Trade [GATT]. The billions of dollars in agricultural trade enjoyed by the U.S. is brought about, in part, by the General Agreement, and is something which would be missed if S. 707 were to become law. We contend that if protectionist legislation were passed, this dependable income from agriculture would be diminished due to subsequent retaliatory measures by other countries. Agriculture would not be the only sector of the economy hurt in such an occurance. In the State of Washington we have some of the most productive and fastest growing port facilities in the nation. Our ports are the closest to the large potential markets in the Far East. Not only would agricultural producers be hurt if S. 707 passes but those whose jobs rely on farm production would find themselves without work.

In 1981, exports from the State of Washington exceeded imports by about $2.06 billion. Agriculture contributed $1.2 billion to exports or almost one-half of the state's trade surplus. In terms of our state alone, any action which would reduce agricultural exports, would slow the recovery the ag-economy is attempting to make.

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[1] "The New Protectionism: Hypocrisy and Bad Economics." Dr. Herbert Giersch, The Jama Forum, Washington, D.C., February 24, 1984.

In conclusion, our present system of international trade is in serious jeopardy if S. 707 becomes law. Family farmers, exporters, consumers and most other parts of the economy would not prosper.

We thank this subcommittee for the opportunity to have the voice of Washington agriculture heard on this most important subject.

## STATEMENT OF PHILADELPHIA PORT CORPORATION

Mr. Chairman, my name is John R. Haines and I am Director of Governmental and Public Affairs for the Philadelphia Port Corporation. The Philadelphia Port Corporation is responsible for the administration and development of the Port of Philadelphia. On behalf of the Philadelphia Port Corporation, I welcome this opportunity to present comments to the Committee concerning S. 707, the so-called "domestic content" legislation for automoblies.

The Philadelphia Port Corporation strongly opposes S. 707 based on its deleterious effect on the Port of Philadelphia specifically, and the local, regional and national economic interest served by this Port generally. Our opposition is based on three identifiable impacts S. 707 would have: (i) S. 707 is inimical to the letter and spirit of the General Agreement on Tariffs and Trade [GATT]; (ii) S. 707 would significantly reduce direct and indirect employment in the Port of Philadelphia; and (iii) S. 707 would have a wide-ranging negative economic impact in terms of local, state and federal tax revenues, personal income, and consumer prices within the automobile market.

Let me develop and support each of these three points:

### 1. GATT

The Philadelphia Port Corporation believes that enactment of S. 707 would clearly signal to our trading partners that the United States no longer believes itself bound by GATT rules. S. 707 would, in our opinion, violate Articles III and XI of GATT; furthermore, Article XIX of GATT would expressly authorize affected contracting parties to withdraw substantially equivalent concessions or other obligations in response to S. 707-like provisions. As the Committee knows, the United States has successfully taken Canada before a GATT tribunal in a complaint against the Canadian Foreign Investment Review Agency's rules which require that a certain level of Canadian parts be used in the products made in Canada by foreign investors.

Therefore, we find that S. 707 would represent a major threat to the stability provided in international trade by the GATT system of rules, and would legitimate retaliation against other United States-produced goods in foreign markets. These three effects, namely destabilization of the international trading process, a reduction in automobile imports and a concomitant reduction in other United States exports, would have material negative impact on the Port of Philadelphia.

### 2. EMPLOYMENT

Contrary to what its advocates will state to this Committee, S. 707 will result in a net loss of jobs estimated by the Congressional Budget Office to be up to 150,000.

Approximately 1,000 jobs in direct and indirect employment are generated by automobile imports in the Port of Philadelphia which would, of course, be put in jeopardy by S. 707. Automobiles are the fourth largest employer by-type of commodity within the Port of Philadelphia. What must also be noted is the prospective loss of jobs in the Port and Port-related industries attributable to foreign retaliation against United States-produced goods.

In summary, it is clear that S. 707 will have a detrimental impact on employment in the Port of Philadelphia. S. 707 would clearly imperil the estimated 115 full-time maritime and 53 full-time transportation jobs which would be generated by our proposed new automobile import/export facility, which would itself be jeopardized by this legislation.

### 3. ECONOMIC IMPACT

First, automobiles moved through the Port of Philadelphia are the largest revenue producer on a per-ton basis, generating annual tax revenues of $80.2 million of $200.50/ton in revenue. Second, automobiles generate $21.6 million in annual personal income within the Port and regional economy. And third, Wharton Econometrics estimates that nearly $18 billion dollars in additional costs to consumers would be added to automobile prices pursuant to the provisions of S. 707.

A prospective multi-million dollar loss of tax revenues and personal income generated by automobiles in the Port of Philadelphia, coupled with the burden on consumers of increased automobile prices for which no comparable increase in real value would be offered, argues strongly against S. 707.

In conclusion, Mr. Chairman, the Philadelphia Port Corporation can identify no merit whatsoever in the provisions of S. 707. Clearly, S. 707 violates international trade rules to which the United States subscribes and would legitimize across-the-board retaliation by our trading partners. Just as clearly, S. 707 would have a materially negative impact on employment in, and generated by, the Port of Philadelphia, as well as resulting in a net decline in employment nationwide. Clear, to, are the prospective losses in tax revenues and personal income as well as the purchasing powers of consumer dollars induced by S. 707. The only thing which is not clear is why anyone would support S. 707.

The Philadelphia Port Corporation encourages the Committee to reject S. 707 based on the rationale I have outlined. I would like to thank the Committee for this opportunity to testify on behalf of the Philadelphia Port Corporation and would be pleased to answer any questions you might have at this time.

## STATEMENT OF LARS G. AMLIE, VICE PRESIDENT, GENERAL MANAGER, AUTOMOTIVE SERVICES, INC.

My name is Lars G. Amlie and I am Vice President, General Manager and part owner of Automotive Services, Inc., 2001 West Fourth Plain, Vancouver, Washington. A.S.I. is engaged in the receiving, preparation and delivery of imported automobiles through the Ports of Vancouver, Washington, and Oakland, California. Any legislation, Federal or local, aimed at restricting the flow of foreign made automobiles will have a devastating impact on our companies and employees. This type of legislation could eventually close down our entire business and seriously affect our suppliers and customers. We strongly oppose this type of protectionism regardless of how well intended. Its far reaching consequence will, in the long run, only lead to retaliation by our trading partners as well as raising the product cost to ourselves, the ultimate consumers of these automobile.

The current voluntary restrictions imposed on Japanese cars for the past year have allowed our U.S. auto manufacturers to recover from the recession as well as the heavy competition from Japanese manufacturers. As a matter of fact, our domestic industry has recovered to the point of posting all time records.

The enclosed data truly reflect the potential loss to A.S.I., its employees, and its trading partners should this bill became law. We have also summarized a number of related losses to the community as a whole. The defeat of this bill is essential to the well being of our company as well as thousands of other large and small entities involves with the marketing of imported automobiles.

Attachments.

*Automotive Services, Inc.—Database last 5 years, 1979–83*

| | |
|---|---|
| Volume of cars handled | 120,000 |
| Employees (average of 5 years) | 125 |
| Property and land investments (not counting investment by port) | $1,500,000 |
| Payroll for 5 years | $10,582,000 |
| Taxes, State and local | $1,000,000 |
| Value to community: | |
| Ripple effect: Spinoff benefit to community as a whole (200 percent) | $24,000,000 |

*ASI Import Services, Inc.—Database last 3 years 1981–83*

| | |
|---|---|
| Volume of cars handled | 60,000 |
| Employees (average) | 105 |
| Property and land investment (Not counting investment by port) | $1,800,000 |
| Payroll for 3 years | 3,445,000 |
| Taxes, State and local | $200,000 |
| Value to Community: | |
| Ripple effect: Spinoff benefit to community as a whole (200 percent) | $12,000,000 |

**Oakland World Trade Association,**
*Oakland, CA, April 30, 1984.*

Hon. **Bob Packwood,**
*Senate Office Building,*
*Washington, DC.*

**Dear Senator Packwood:** The Board of Directors of the Oakland World Trade Association has directed me to address you concerning Senate Bill 707, the so-called "Fair Practices in Automotive Production Act". Our organization strongly opposes this legislation as being contrary not only to the interests of California, but of the nation as well.

Our Association of over 200 members has represented the San Francisco Bay Area international business and trade community for more than 55 years, consistently advocating the promotion of sound trade in our area, the State, and the Nation. We believe that such trade, operating with as few restrictions as possible, is essential to the economic health of the United States.

We believe that S. 707 is an ill-conceived, precipitous bill proposed without due consideration of the deleterious long-term impacts. Any examination of U.S. trade restrictions imposed in the past will disclose the injurious results. The immediate effects of this "domestic content" legislation, if enacted and enforced, will be to curtail waterfront and related jobs in California, through whose ports 25 percent of total auto imports flow. The more serious long-range effect will be retaliation of various types by our overseas customers, which will cut our export of products; exacerbating our already-critical balance of payments situation and reducing the substantial number of jobs generated by our production for export. Incidental to all of this will be the inevitable increase in auto prices, already very inflationary, to U.S. buyers; which has been the result in every country which has "domestic content" laws designed to protect the so-called "infant industries".

We urge rejection of S. 707 and any other similar proposals as contrary to our national interests.

Sincerely,

**Robert W. Ross,**
*Executive Director.*

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**The U.S. Trade Representative,**
*Washington, May 11, 1984.*

Hon. **Robert Packwood,**
*Chairman, Committee on Commerce, Science and Transportation,*
*U.S. Senate, Washington, DC.*

**Dear Bob:** Thank you for the opportunity to present the Administration's views on S. 707, "The Fair Practices in Automotive Products Act" and its relationship to our international agreements.

I want to commend you and the Members of your Committee for holding these hearings. Let me unequivocally state that the Administration is unalterably opposed to domestic content legislation in any form. This bill and its companion bill, H.R. 1234 passed by the House, would raise the price of every car, cost jobs, and unravel the international trading system—perhaps leading us into a trade war. It is my hope that these hearings will serve as the forum through which the dangers of this bill can be demonstrated.

In response to your specific request for information on the impact of this proposed legislation on U.S. obligations under the General Agreement on Tariffs (GATT), in my opinion, imposition of domestic content ratios provided for in either S. 707 or H.R. 1234, would be inconsistent with these obligations under Article III of the GATT, which prohibits local content requirements and Article XI, which prohibits quotas. This bill could also subject us to challenge under bilateral treaties of friendship, commerce, and navigation maintained with many of our trading partners which contain similar nondiscrimination commitments.

In the House Energy and Commerce Committee report on H.R. 1234, the majority asserted that the House bill was consistent with the GATT because it had been amended to fall within the "escape clause" of Article XIX of the GATT. I cannot agree, and I do not believe any other countries will agree—unless they intend to follow our example so as to protect their own markets from imports of various products.

The only relevant change in the House bill for GATT purposes is that the Committee added a recital of parts of Article XIX to its findings in the bill. In GATT, it is not enough just to recite the terms of Article XIX. We must be able to show that increased imports of each of the many products affected by the bill cause or threaten serious injury to the domestic producers. The current economic situation in the industry casts serious doubts whether we can establish this to the satisfaction of our trading partners.

There is also the problem of the relief proposed in the bill. The GATT states that we are allowed to provide relief "to the extent and for such time necessary to prevent or remedy such injury". That is to say, the trade restriction cannot be more severe and cannot last longer than the injury. We believe that means a temporary measure, and one which should be made progressively less restrictive.

What this bill proposes is to phase in progressively more domestic protection without any limit on how long the protection will run. I know of no precedent for imposing a severe statutory local content requirement under the guise of an escape clause relief. This bill is not temporary relief gauged to remedy serious injury, but rather a permanent and severe piece of protectionism.

Let me approach this issue from another direction. Even if one were to ignore the facts and take the hypothetical proposition that S. 707 could be made consistent with our GATT obligations, the consequences would be as drastic. If the United States were to invoke Article XIX, that article expressly authorizes affected contracting parties to withdraw substantially equivalent concessions or other obligations in response. This would still endanger thousands of U.S. jobs because Article XIX contains its own provisions for retaliation. Supporters of the bill should understand that attempts to make the bill "GATT-legal" do not make it free from legal retaliation or requirements for compensation under the GATT.

Likewise, emulation of this action in other product areas of export interest to the United States could be just as devastating to trade and jobs. Do we really want to set the precedent for foreign governments to take similar action on products such as vegetable oils or computers?

The United States, on occasion, has taken trade restricting actions where warranted and where U.S. law and our international obligations permit. The 1983 decisions on motorcycle and specialty steel imports were based upon recommendations of the U.S. International Trade Commission following thorough investigations and a Presidential review of their findings under Section 201-203 of the Trade Act of 1974. Congress established these procedures as the domestic analog of Article XIX and specifically requires the President to take into consideration the "effect of import relief on the international economic interests of the United States", among other factors.

My defense of the Administration's position on domestic content legislation is not based on a narrow legalistic view of our trade obligations, nor on neither an idealistic view of world trade and how our trading partners behave. Rather, the pursuit of free trade is a necessity for the preservation and growth of American jobs. Exports and trade mean jobs and growth. Enactment of domestic content legislation would ultimately be bad for the U.S. automotive industry and certainly would be inimical to U.S. and world economic health and employment. This bill, if enacted into law, would cost us jobs, sales, markets, and real economic growth.

This Administration will continue to oppose domestic content requirements in the strongest possible terms.

Very truly yours,

WILLIAM E. BROCK.

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U.S. SENATE,
*Washington, DC., May 15, 1984.*

Hon. BOB PACKWOOD,
*U.S. Senate,*
*Washington, DC*

DEAR BOB: Hearings are going to be held on May 16th relative to Fair Practices in Automotive Products Act.

I will not be able to be with you because I'm right in the middle of trying to get the Military Authorization Bill written up and it is not all that easy.

I'm strongly opposed to this legislation and I see no need for it. I think if American business will just rely more and more upon the expertise that has always made us great, that is free enterprise, they can outproduce, in quality and numbers and sales, any automobiles made anyplace in the world.

I would like to have this letter made as part of the record of your meeting and I apologize to you for not being with you but, as you know, working in this Senate is not the easiest thing in the world.

With best wishes,

BARRY GOLDWATER,
*U.S. Senator.*

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INTERNATIONAL LONGSHOREMEN'S ASSOCIATION, AFL-CIO,
*New York, NY, May 15, 1984.*

Hon. BOB PACKWOOD,
*Chairman, U.S. Senate Committee on Commerce, Science, and Transportation, Washington, DC.*

DEAR SENATOR PACKWOOD: Thank you for your invitation to appear before the Senate Committee on Commerce, Science and Transportation on May 16, 1984 to present the ILA's views on S. 707, the Fair Practices In Automotive Products Act.

Unfortunately, I am already scheduled to be elsewhere at the time of the hearing. However, the remarks that I would have made would not vary from the statement contained in my letter of January 8, 1983 in response to your earlier inquiries on essentially the same domestic content bill. I am therefore enclosing a copy of that letter and request that you accept it into the record as our Union's official position.

Sincerely yours,

THOMAS W. GLEASON,
*International President.*

Attachment.

INTERNATIONAL LONGSHOREMEN'S ASSOCIATION, AFL-CIO,
*New York, NY, January 28, 1983.*

*Re: Fair Practices In Automotive Products Act.*

Hon. BOB PACKWOOD,
*Chairman, U.S. Senate Committee on Commerce, Science, and Transportation, Washington, DC.*

DEAR SENATOR PACKWOOD: I am responding to your letter of December 27, 1982 enclosing a list of questions. I will attempt to respond to each of them in the order posed:

1. It is the ILA's position that none of the various versions of the domestic content legislation that surfaced during the 97th Congress is preferable over the others. In my prepared statement to Congress, I noted that the legislation per se is ill-conceived because it treats the symptoms and not the causes and because it will only shift the burdens of unemployment and underemployment from one particular industry to other equally important and substantial sectors of our national economy.

I can appreciate the action by the House to amend H.R. 5133 by what is known as the "Fenwick Amendment". This appendage could be interpreted as a "gutting" of the Act and its original purpose. However, it still leaves the door open for litigation over whether or not the terms of GATT or other international agreements are violated in any particular instance.

There is another aspect of even greater significance. The Act, whether potent or impotent, still will stand as a statement by the Congress undermining the basic concept of free trade—a principle which our country has encouraged and promoted since the Second World War and which must not be abandoned just because at the moment the shoe might be on the other foot. Our credibility and reliability are just as much at stake in this area of our international relations as in others. We must find solutions that are consistent and innovative—not contradictory and troublesome.

2. Both unemployment and underemployment are quite extensive among the ILA's members. For example: over the past 15 years in the Port of New York alone, we have seen the ranks of the longshoremen reduced from 27,500 men to some 9,000 longshoremen at present, of whom less than 6,000 work on a regular basis. As the process of containerization rapidly develops in other ports as well, more and more of our members do and will qualify for and receive guaranteed annual income payments which reflect their underemployment. This does not take into account numerous other longshoremen who do not qualify for GAI benefits but who no longer can find work in the industry to entitle them to this benefit. The impact of the current recession, with reduced trade and cargo as well, and the introduction of larger and more efficient vessels have further depleted our members' ranks and threaten to continue this downward regression. We cannot, on such short notice, give you exact figures. Nonetheless, this steady trend is unmistakable and ominous.

3. The Department of Transportation estimate that up to 11,600 direct jobs would be lost and up to 81,200 indirect jobs will be in jeopardy through decreased car import activity alone does not appear to be far from the mark. Just one of our New Jersey locals reports that at least 500 of its members are engaged in the storage of cars and in preparations and deliveries to car dealerships in that area. This does not account for the great numbers of our members engaged in off-loading, checking and other activities at pierside at ports on the Great Lakes, the Eastern and South Atlantic Coasts, the Gulf Coasts and in Puerto Rico. Of course, one must also take into account all of those West Coast longshoremen whose jobs would be affected. The five-to-one ratio between back-up jobs and longshore ones would suffer from the same ramifications of domestic content legislation.

4. Reasonably assuming that foreign countries would retaliate against US exports in the event that the Act as envisioned by its sponsors should pass and become law, then the potential job losses for US ports are immense. After all, international trade is a two-way affair. Excepting grain products and comparable items that other countries deem necesary or expedient to their economic and political survival, all other optional-type products can be expected to be subject to the self-same domestic content legislation or other trade and tariff barriers that countries in the targeted industry might choose at random. Certain ports would be affected more than others, depending on the commodities that they handle. Conceivably, retaliation might also take the form of limiting exports to the United States of those items that we need or want, to which our members' jobs are equally vulnerable, because over 90% of international trade moves by sea.

5. The reason for the ILA's departure from the AFL-CIO in its position on the domestic content legislation was set forth at length in my prepared statement. More specifically, we maintain that the answers to the problems and malaise in one industry employing members of one or more AFL-CIO unions, should not be alleviated at the expense of another affiliate that is directly affected because of well-established patterns of work flow and job opportunities. Our members have suffered severe losses of jobs and work opportunities over longer periods of time than those in other industries, but the ILA has never asked anyone else to share or make up for its problems and losses. Indeed, we are still engaged in extensive litigation just to preserve work that was wrongfully taken away from our members over the past two decades. This is in addition to the work lost through automation and economic upheaval.

It is therefore unfair for our members to have to undertake further burdens and to risk whatever remains of their jobs because of what has happened over just the past few years in another major industry, during a period of overall business decline that has affected everyone. As I said before, this is a time for everyone to pull together, not apart.

I hope that the foregoing will be satisfactory for your present needs. However, we will be glad to attempt to respond to any further request you may have.

Sincerely yours,

THOMAS W. GLEASON,
*International President.*

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MULTNOMAH COUNTY LABOR COUNCIL, AFL-CIO,
*Portland, OR, May 21, 1984.*

Hon. BOB PACKWOOD,
*U.S. Senate,*
*Portland, OR*

DEAR SENATOR PACKWOOD: The "Fair Practices in Automobile Products Act" that will be acted upon by the United States Senate in the near future, is stongly supportd by the American Federation of Labor and Congess of Industrial Organizations. It is estimated that the enactment of this legislation would affect between 100,000 and 300,000 jobs in our country.

Your support of this legislation, as Chairman of the Senate Commerce Committee, would be greatly appreciated.

Sincerely,

LON IMEL, *Executive Secretary.*

BENICIA PORT TERMINAL CO.,
*Benicia, CA, May 21, 1984.*

Hon. BOB PACKWOOD,
*Russell Senate Office Building,*
*Washington, DC.*

DEAR SENATOR PACKWOOD: Recently, it has been brought to our attention that the automobile domestic content bill S. 707, has passed the House by a narrow margin. We further understand that this bill will be voted upon by the Senate shortly in the latter part of this year.

Although the media has recently provided statements from the Reagan Administration opposing such legislation, it must nevertheless be voted on by the Senate.

Our particular port concern deals directly with automobile import operations. Therefore the effects of such legislation would prove to be devastating to our concern as well as to other port concerns in California. The exponential negative effects on S. 707 would be further prevalent when the national port system is considered, and this would be the case just for the ports and terminals industry. The domino negative effects that would be experienced by the hi-tech industry, agricultural industry, various manufacturing concerns, aerospace industry, retail merchandising industry, and numerous ancillary industries and concerns should be proof enough that such legislation benefiting one particular group would provide a greater imbalance on the national and international levels.

We ask that you vote against S. 707 or any other form of domestic content legislation and request your solicitation of this direction with other senators.

We thank you for your kind attention to this matter.

Sincerely,

A. D. VINCENT II, *Vice President.*

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NATIONAL CUSTOMS BROKERS & FORWARDERS
ASSOCIATION OF AMERICA, INC.,
*New York, NY, May 22, 1984.*

Senator BOB PACKWOOD,
*Senate Commerce, Science & Transportation Committee,*
*Dirksen Building, Washington, DC.*

DEAR SENATOR PACKWOOD: The ocean freight forwarder and custom broker membership of our association and 29 affiliated local associations handle the vast majority of general cargo in our export-import trade. We would like to express our serious concern with the domestic-content bill pending before your committee.

You are thoroughly familiar with the extensive and persuasive arguments against this bill. But we wish to point out to you that passage would wreak havoc not only in our industry but in related industries with whom we deal in the processing of outbound and inbound cargo. Some of these, but not all, are local truckers, warehouses, banks, insurance companies, terminals, consolidators, packers and steamship lines. Each would be affected catastrophically when other nations retaliate against our domestic-content bill by restricting the purchase of U.S. exports, as they assuredly will.

The bill may gain a temporary advantage for a narrow segment of our economy. But in the long run our international commerce would be immeasurably harmed if the bill passes. We urge you and other members of the committee to defeat the bill.

Sincerely yours,

WILLIAM ST. JOHN, Jr., *President.*

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JACKSONVILLE PORT AUTHORITY,
*Jacksonville, FL, May 22, 1984.*

Hon. ROBERT PACKWOOD,
*Chairman, Committee on Commerce Science and Transportation,*
*U.S. Senate, Washington, DC.*

DEAR SENATOR PACKWOOD: I would like to take this opportunity on behalf of the Jacksonville Port Authority [JPA] and the Port of Jacksonville to register our opposition to Senate Bill 707, the Automobile Domestic Content Bill.

This letter is being written primarily to emphasize the Port's opposition to the Bill, since the Port of Jacksonville enjoys the reputation of having more imported cars than any other port in the United States. Imported automobiles account for approximately 30–35% of the operating revenues enjoyed by the JPA. The last fiscal year, these revenues generated by auto imports climbed to an all-time high of approximately $12 million; up 17% from the previous year. These direct revenues derived by the JPA must be multiplied by at least three to determine the economic impact of these imports on the Jacksonville community.

In support of the imported cars through Jacksonville, we have four auto processing plants which are the most modern among any of the ports in the U.S., and employ collectively in excess of 1500 people. Additionally, there are those longshoremen involved in the off-loading of the vessels, as well as the trucking and rail lines which are employed in the transportation of the vehicles from the port facilities to their destination. The economic advantages which accrue to this particular area by virtue of the importation of automobiles is truly significant. I would hasten to add that such advantages which accrue to the Port of Jacksonville through this particular endeavor are enjoyed by other ports within the port complex of the U.S., on the East Coast, the Gulf Ports and the West Coast. Thus, the economic advantages which accrue to the nation through the importing of vehicles are enjoyed throughout the U.S., and are not restricted as in the case of domestic car manufacturing is to a particular area such as Detroit.

An additional factor, and one which we believe is significant, is the economic impact that these imported automobiles have on the retail distribution system within the United States, with the concomitant advantages being realized by the consumer through the availability of a more quality product at competitive prices.

I could discourse at greater length relative to the Jacksonville Port Authority's opinion on Senate Bill 707, but we have had the advantage of listening to you, Mr. Senator, and Senator Chafee, et al, on a recent program given in Washington before the Automobile Dealers International, at which collectively you and the participants covered most effectively all of the arguments which would dictate against the passage of Senate Bill 707.

The Jacksonville Port Authority would respectfully request that this letter be made a part cf the record in strong opposition to the passage of Senate Bill 707. We would be delighted to provide any further information on any particulars you may have on the subject.

Respectfully,
Sincerely,

JOHN R. MACKROTH, *Managing Director.*

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PORTLAND CHAMBER OF COMMERCE,
*Portland, OR, May 22, 1984.*

To: Senator Packwood, Chairman of the Senate Commerce, Science and Transportation and Committee Member.
From: Ronald T. Miller, President, Portland Chamber of Commerce.

The Portland Chamber of Commerce strongly opposes S. 707 which would require imported automobiles to have a fixed percentage of domestically produced components. While we sympathize with the concerns of the supporters of this legislation, we oppose this approach to solving a complicated and critical problem.

We feel that the future of this nation is directly linked to how competitive our businesses and industries are on the world market. S. 707 constitutes a major departure from the free trade posture that has been the basis of our nation's international economic policy since World War II.

S. 707 invites retalitatory measures by foreign nations against other U.S. exports affecting a host of industries—agriculture, aerospace, electronics, to name a few. If Domestic Content legislation were enacted, it is estimated that 66,000 more jobs would be lost in U.S. export industries than would be gained in the auto industry.

S. 707 would be detrimental to an already fragile Northwest economy. Japan, alone, accounted for 43.3 billion of import/export activity last year in our region which could be placed in jeopardy. According to our information, some 270,000 auto imports entered through the Port of Portland last year, providing direct jobs and related employment for an estimated 9,300 persons. The direct economic impact upon our area of this activity is $65.8 million with a indirect impact of $248.3 million. Enactment of Domestic Content legislation would have a direct and immediate negative impact upon this activity.

Time has reduced the crisis for the domestic auto industry which has rebounded strongly under voluntary measures. Extreme protectionist measures such as Domestic Content are unwarranted, short-sight solutions to one-industry recession problems carrying with it serious national and international implications. American workers and consumers would ultimately "pay the price" for such short-sighted solutions.

For these reasons we strongly urge you to vote against S. 707, or Domestic Content in any form.

Sincerely,

RONALD T. MILLER, *President.*

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THE SECRETARY OF TRANSPORTATION,
*Washington, DC, May 23, 1984.*

Hon. BOB PACKWOOD,
*Chairman, Senate Committee on Commerce, Science and Transportation,*
*U.S. Senate, Washington, DC.*

DEAR BOB: For use in your consideration of "The Fair Practices in Automotive Products Act" (S. 707), I wish to furnish you information regarding the administrative burdens and costs of implementing the proposed motor vehicle doemstic content legislation. Because S. 707 would designate the Department of Transportation to monitor and enforce the domestic content requirement as well as to work with the Advisory Council and conduct several studies, I have a special interest in the administrative burden it would place on government and industry.

I also wish to emphasize that I full agree with the Administration's general view on this legislation which is that enactment of the bill would be more likely to reduce than to increase U.S. employment and that it would have a harmful effect on U.S. efforts to increase free trade.

Our analysis suggests that this legislation would establish a form of economic regulation of the U.S. automobile industry that would impose a serious administrative burden on both government and industry, and eventually a cost upon the public. For example, the full and fair application of the domestic content requirements would necessitate government intrusion into the sourcing and pricing equipment, parts and materials deep inot the supplier chain. Such information is usually considered proprietary and confidential by the private sector. Divulging it to the government involves a risk to private firms and a government liability if the firm is injured by its compromise. The major automotive manufacturers and many of their 40,000 supplier firms would be affected.

The administrative cost alone of this legislation could mean several dollars added to the sale price of every car sold in the country. The total cost to the public from the losses in productivity, efficiency and innovation engendered by this economic regulation could be far larger. The legislative and executive branches have developed a broad consensus in recent years regarding economic deregulation of the U.S. transportation industries. S. 707 represents a major step backward from our success thus far in removing the burdens of regulation from these industries.

While the legislation is ostensibly aimed at aiding U.S. workers in the automotive industry, there is considerable doubt that it would reduce overall unemployment. For instance, the loss of a million imported vehicles would cost the jobs of 4,500 dock and other maritime workers directly involved in unloading and preparing imported cars, plus thousands more who transport, sell and service them. If our trading partners retaliate by cutting their imports from us, the loss in jobs among production and transport workers in our export industries could easily outweigh any job gains by automobile manufacturing workers.

In summary, I believe that S. 707 would be a retreat from our successes in economic deregulation, it would be costly to the industry it was intended to protect, and it would at best represent only a transfer of unemployment from one industry to others. Furthermore, in light of the greatly improved financial condition of the U.S. automotive industry, the legislation is unnecessary.

The Office of Management and Budget advises that there is no objection to the presentation of this report to the Congress, and that enactment of S. 707 would not be in accord with the program of the President.

Sincerely,

ELIZABETH HANFORD DOLE,
*Secretary.*

WASHINGTON CITIZENS FOR WORLD TRADE,
*Seattle, WA, May 23, 1984.*

Hon. BOB PACKWOOD,
*Russell Senate Office Building,*
*Washington, DC.*

DEAR SENATOR PACKWOOD: Washington citizens for World Trade, a forty-member trade association representing timber and maritime interests in Washington State, strongly opposes the domestic content bill which is presently before your committee. As an organization committed to the expansion of international trade, we oppose any and all artificial barriers to the free flow of goods between trading partners.

We object to "domestic content" legislation for several reasons. First, if passed, we feel this legislation could result in retaliatory action by the Japanese against U.S. exports. To a state like Washington, which depends so heavily on exports of forest products, airplanes, and agricultural commodities, the effect could be devastating. Secondly, we believe American jobs would be lost. The Congressional Budget Office has predicted a net loss of 66,000 jobs. In Washington State alone, more than one of every five jobs is dependent on exports. We cannot afford to gamble jobs already in place on the West Coast in the hope that somehow new jobs will be created in other parts of the country. Thirdly, we are concerned that this bill is in violation of the GATT agreements and will undermine our efforts to eliminate tariff and non-tariff barriers in other nations. Finally, we feel that restrictions of this type inevitably result in reduced competition in the protected industry and higher costs to consumers. A study by Wharton Econometric Forecasting Associates on this proposed legislation recently concluded that new car prices would jump 10% with passage of this bill, at an annual cost of $18 billion to American consumers.

We strongly urge you to vote against this or any other domestic content legislation.

Sincerely,

JAMES A. LANGLOIS, *Executive Director.*

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JOINT COUNCIL OF TEAMSTERS NO. 37,
*Portland, OR, May 23, 1984.*

Hon. BOB PACKWOOD,
*Chairman, Senate Committee on Commerce, Science & Transportation,*
*Russell Senate Office Building, Washington, DC.*

DEAR MR. CHAIRMAN: I have grave concern over the possible passage of S. 707, the "Fair Practices in Automotive Products Act". This concern is centered on the economic impact such legislation would have on the 4,400 workers who are members of our organization and the 35,000 men and women in Oregon who are affiliated with Joint Council of Teamsters No. 37.

Our concern began in September, 1982, when H.R. 5133 and S. 2300 were being considered by members of the Congress. Our objections to these measures were outlined in the Official Journal of Joint Council of Teamsters No. 37, which we hereto attach.

In November, 1982, we were in concert with the testimony given before a subcommittee of the House Ways and Means Committee in Washington, DC by Mr. Lloyd Anderson, Executive Director of the Port of Portland. Part of Mr. Anderson's testimony before that subcommittee is enclosed.[1]

Now, we note, the domestic content legislation of 1982 has taken on a new name—the "Fair Practices in Automotive Products Act". We suggest that the words "Fair Practices" are inappropriate and somewhat misleading when the results of S. 707 becoming law are examined. These results include, but are not limited to the following:

(a) The loss of employment for American workers has been put at 110,000 by the early 1990's. We don't think that is a "Fair Practice".

(b) S. 707 would mean the loss of billions of dollars to American exports and would jeopardize any expansion of improvement of trade relations with other nations. We do not believe this is a "Fair Practice".

(c) The cost of a new automobile to Americans, with S. 707 in place, would rise by nearly 15 percent, costing consumers in the United States nearly $20 billion a year more than they now pay for new cars. Certainly, this is not a "Fair Practice".

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[1] The enclosure was not reproducible.

We would like to suggest that with auto industry profits approaching $7 billion in the last year, it is not necessary to restrict trade with those countries abroad with whom we actively seek trade improvements and ask to lower their own restrictions against American goods and services. Indeed, if we initiated such a "Fair Practice" at home it would be called restriction of trade and bring the wrath of the courts down on the heads of the offenders.

We ask you to fairly consider the points of our concern and our exhibits. We respectfully suggest that you and members of your Committee seek a different avenue to eliminate the unemployment problems in the auto industry. We ask you to abandon S. 707, which we deeply believe would help a few Americans, but injure many.

Sincerely,

THOMAS J. MALLOY, *Representative.*

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TEAMSTER DAIRY, BAKERY & FOOD PROCESSORS, INDUSTRIAL,
TECHNICAL & AUTOMOTIVE, LOCAL UNION NO. 305,
*Portland, OR, May 23, 1984.*

Hon. BOB PACKWOOD,
*Russell Senate Office Building,*
*Washington, DC.*

DEAR SENATOR PACKWOOD: It is my understanding that the debate surrounding the Automobile Domestic Content Bill is nearing a conclusion. I am hopeful that upon your careful consideration of the negative impact such a Bill could produce, that a "No" vote will be cast by yourself.

As a representative of more than 270 people employed as a direct result of the auto import industry I feel I must emphasize the strong feelings of our members and their desire to see this Bill defeated. The passage of this Bill would only ultimately increase the unemployment that exists in our State of Oregon. I can see the Bill itself as self-serving to only a few special interests groups while damaging the overall interest of many others.

In the city of Portland alone each automobile imported produces a minimum of $200 into the local economy. Our members employed in this industry earn an average of better than $9.00 an hour which provides to them an ability to purchase products and/or services produced by other industries essential to our Oregon economy.

The industry itself is extremely compatible with the image of the State of Oregon, that being one that encourages industries which are environmentally good for the State.

As a representative of our State I am hopeful that your influence and concerns will best serve the people you represent.

Very truly yours,

ANTHONY L. ANDREWS,
*Business Representative.*

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U.S. SMALL BUSINESS ADMINISTRATION,
*Washington, DC, May 23, 1984.*

Hon. BOB PACKWOOD,
*Chairman, Committee on Commerce, Science and Transportation,*
*U.S. Senate, Washington, DC.*

DEAR CHAIRMAN PACKWOOD: I appreciate this opportunity to comment to the Committee on S. 707—the "Fair Practices in Automotive Products Act." As the chief Counsel for Advocacy of the U.S. Small Business Administration, I am charged with the responsibility of presenting the views of this nation's small business community to Congress on issues of major economic concern to small business.

The National Advisory Council of the Small Business Administration and various small business groups have taken a strong stand against this legislation. I heartily support their stand. This bill is of concern to many small businesses in this nation; not only to those most obviously affected, such as automobile dealerships, but also to those small businesses which service the auto sales industry, as well as a much wider range of businesses concerned with the patently anti-competitive effects that would result from such protectionist legislation.

In an attempt to save and create jobs in the automotive industry, this bill would actually cause a strong perverse effect in the auto sales industry, which is made up of over 18,000 primarily small businesses. The approximately 5,000 auto dealerships who sell exclusively imported cars would in actuality be faced with a severe import quota as several European and Japanese auto producers would be forced to greatly curtail their shipments to the U.S. market.

The approximately 2,000 mixed dealerships, selling both foreign and domestically produced cars, would be deprived of the flexibility afforded by selling two or more lines of cars, as well as faced with a lower sales volume. Additionally, purely domestic dealerships would suffer under this proposed legislation, as U.S. producers would lose their flexibility in the off-shore sourcing of certain production activities, causing the cost of producing U.S. cars to rise. Fewer cars would be purchased in reaction to a "sticker shock" caused by higher prices, and domestic dealers would find themselves with reduced sales, and resultant cash flow problems.

Small businesses nationwide provide a wide range of the essential support services for the auto sales industry, as well as for the auto import industry. They all stand to lose with this legislation. In addition to severe job losses in those sectors that service the auto sales industry, the more immediate result of this legislation would mean the loss of tens of thousands of American jobs in the auto import industry, mostly at the dealership or distribution level. It is estimated that the number of U.S. jobs in the auto importing industry had risen to 165,000 by the end of 1981. A reduction of almost 60 percent in auto imports (based on Congressional Research Service's assumptions about domestic content legislation) would decimate employment in this industry.

Still other U.S. jobs are directly dependent on auto imports. According to research conducted for the Port of Portland by Economic Research Associates, one direct port job (in stevedoring, storage, handling, security, inspection or repair) is related to every 234 autos crossing the dock, with another seven indirect jobs generated in the region. As a result, the maximum reduction in auto imports induced by domestic content legislation (1.58 million units based on CRS assumptions) could cost another 54,000 U.S. jobs in port and port-related activities.

The small businesses of this country can be proud of the fact that over the last several years they have been the major contributors to new job creation for millions of Americans—more new jobs than big business has created. Small business does not want this country put in a position where a trade war could take away thousands of jobs from the American people, across industry sectors.

The small business community as a whole is greatly concerned by the protectionist nature of the proposed legislation. Small businesses are inherently free trade advocates and are strongly opposed to actions that risk unleashing a trade war among important trading partners. Small businesses do not want to risk losing parts of both domestic and foreign markets in a growing trade war.

Most importantly, small businesses are averse to seeing the U.S. set a precedent for this type of protectionism. If the Congress approves the domestic content proposal for automobiles, there would be strong demands to spread similar domestic content restrictions to other industries. Small manufacturers of a large variety of goods rely on imported products and inputs to remain competitive, and the higher costs caused by domestic content requirements would significantly reduce their competitiveness. Any hope that small business could ameliorate the U.S. trade deficit by expanding exports would also vanish in such a climate.

As a final note, small business is well aware that the deepest crisis in the U.S. auto industry is now past. The recovery is reducing the immediate pressures on U.S. producers, as has their adjustment to competitive pressures. To risk destabilizing the small business dominated auto sales industry, their supporting small business suppliers, and the international trading system at this time seems unreasonable. It is not good public policy from the small business perspective.

Yours very truly,

FRANK S. SWAIN,
*Chief Counsel for Advocacy.*

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PACIFIC NORTHWEST INTERNATIONAL TRADE ASSOCIATION,
*Portland, OR, May 23, 1984.*

Senator BOB PACKWOOD,
*Chairman, Senate Commerce Committee,*
*Washington, DC.*

DEAR SENATOR PACKWOOD: I am writing to express the views of the Pacific Northwest International Trade Association [PNITA], which is componsed of 100 member companies and organizations involved in a wide range of international operations in Oregon, Washington, and Idaho, on S. 707, Domestic Content legislation, upon which you are conducting field hearings in Portland on May 29th.

In our view, this legislation files directly in the face of our international obligations under GATT and could in time prove to be the catalyst for a flood of retaliatory measures taken against U.S. goods and services sold to other nations. Protectionist measures applied in one country almost always lead to reciprocal measures in other countries.

But what does all this mean to the Northwest? Let us consider a case which I know very well. A-dec, Inc. of Newberg, Oregon, manufactures a line of dental delivery systems which is exported to approximately 60 countries world-wide. Exports account for more than 15% of A-dec sales and contribute to jobs for 70 of A-dec's 500 workers. Since A-dec has no manufacturing facilities abroad, any legislation in another country which restricts imports directly affects the people in Newberg.

In addition, A-dec's largest overseas market is Japan. In fact, in the major product line sold in Japan, A-dec commands a 30% share of market. Clearly A-dec knows how to sell to the Japanese. But the years of hard work leading up to this achievement could easily be destroyed if a world trade war is touched off. And domestic content legislation poses that potential.

As you well know, the Northwest economy made the mistake of relying on one industry too long. Consequently, when the last recession hit and the wood products market dried up, our region suffered more than most. But we in the Northwest have learned our lesson. We have diversified our economy and have learned to compete head-to-head in the world. Domestic content legislation will set back our economy to a point where recovery again will be difficult.

Finally, domestic content legislation is a form of government industrial policy playing off one region against another. Giving special benefits to Midwest workers at the expense of Northwest workers will not benefit the nation; it will only serve to make us all losers in the long run.

Real progress comes as the result of free and fair competition. American manufacturers such as A-dec can compete in the world markets. What we need from the government is help occasionally to insure fair competition. What we do not need is one special interest group, unable to compete in the world, sparking a trade war that could destroy all we have achieved.

Thank you.

Sincerely yours,

Alan J. Mellinger,
*Chairman, Domestic Committee.*

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Pacific Rim Trade Association,
*Portland, OR, May 24, 1984.*

Hon. Bob Packwood,
*Senator from Oregon,*
*Portland, OR.*

Dear Bob: I am writing on behalf of the members of Pacific Rim Trade Association to express our sincere opposition to the domestic content legislation now before the Congress.

You are aware of our long-standing concern over this issue, and there is really no reason to go over our reasons again.

Suffice it to say, however, that this form of protectionism has no place in America's world-trade economy, and that fact is multiplied a hundredfold in Oregon and the Pacific Northwest.

When the local content bill comes before the United States Senate, we urge you and your 99 colleagues to give it the resounding defeat it deserves.

Sincerely,

Rolf D. Glerum.

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Supercargoes and Clerks Union, Local 40,
*Portland, OR, May 24, 1984.*

Hon. Bob Packwood,
*U.S. Senator, Russell Building,*
*Washington, DC.*

Dear Senator Packwood: Thank you very much for the invitation to Mr. Larry Clark to testify before your Senate Committee on May 29, 1984. Mr. Clark, our Secretary-Treasurer/Business Agent, is currently in San Francisco as a member of our Negotiating Committee for the upcoming Longshore Contract.

However, I would like to take this opportunity to express the views of this Local concerning S-707, the "Fair Practice in Automotive Products Act."

As Mr. Clark stated in his letter to you of June 14, 1982, this legislation would affect 9,000 families in the Pacific Northwest. As President of a Local Union that represents 250 of these families, I am very concerned about the effect this Bill would have on them. If what I read in the newspapers is correct, it seems to me that this legislation is not needed. Figures indicate that the United States auto industry not only is enjoying the largest production in many years but also the largest profits. Along with these large profits, the obscene wages, bonuses and incentives paid to auto executives this year would indicate that this industry does not need any more protective laws.

We believe that if the auto industry will devote itself to quality products, equitable wages and fair pricing, S-707 is not needed at this time.

I respectfully ask that when it comes time to vote on this Bill, you will consider the impact it will have on the workers in the Pacific Northwest.

Sincerely,

PHILIP E. PITZER, *President.*

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GENERAL TRUCK DRIVERS, CHAUFFEURS AND HELPERS UNION, LOCAL 692,
*Long Beach, CA, May 24, 1984.*

Hon. BOB PACKWOOD,
*Chairman, Senate Committee on Commerce, Science & Transportation,*
*Washington, DC.*

DEAR SENATOR PACKWOOD: As the Secretary-Treasurer of a Teamsters Local representing approximately 6,000 members, 25 percent of whom presently work in the import automobile industry, such as Toyota, Nissan and Mazda, and related industries, such as the automobile hauling industry, container freight stations connected with the import/export business, etc., I wish to express my concern over the possible passage of the Domestic Content Bill—S707.

I feel the passage of this Bill would seriously jeopardize the jobs of these members and other jobs generated by employers who supply goods and services to these manufacturers.

I can only speak as to the effects on these members which we represent in the Los Angeles/Long Beach and San Pedro area, and I strongly urge you to vote against this Bill.

Sincerely yours,

MONTE K. OGDEN, *Secretary-Treasurer.*

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MICHIGAN STATE UNIVERSITY,
*East Lansing, MI, May 25, 1984.*

Senator BOB PACKWOOD,
*Chairman, Committee on Commerce, Finance & Transportation,*
*Senate Office Building, Washington, DC.*

DEAR SENATOR PACKWOOD: Although I would very much like to participate in your hearing on S. 707, the Fair Practices in Automotive Products bill, I shall not be able to do so.

However, I should like to record my opposition to S. 707 which I do not think is in the best interest of the United States, the domestic automobile industry, and the state of Michigan.

The enclosed article, "Countervailing or coalescing power? the problem of labor/management coalitions", explains—at least to my satisfaction—the underlying factors which explain the travails of the domestic auto industry. I would very much appreciate it, therefore, if you would include this article [1] in the printed hearings on S. 707.

With fond recollections of my last appearance before your Committee, I am,

Respectfully yours,

WALTER ADAMS,
*Distinguished University Professor.*

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[1] The article was printed in Journal of Past Keynesian Economics/Winter 1983-84 vol. VI, No. 2 and is in the Committee files.

Maremont Corp.,
*Chicago, IL, May 30, 1984.*

Hon. Bob Packwood,
*Chairman, Committee on Commerce, Science, & Transportation,*
*Dirksen Senate Office Building, Washington, DC.*

Dear Senator Packwood: It is my understanding that you are participating in hearings on the Domestic Content Bill (Senate Bill S. 707) in order to help form an opinion on the direction our country should be pursuing on this important piece of legislation.

Maremont Corporation is one of the largest producers of automotive shock absorbers and exhaust systems in the United States and the free world. We maintain large production and administrative centers in Maine, Tennessee, Illinois, and Oklahoma. Our production in these automotive facilities is primarily to fit the needs of the U.S. market. As a company, we are opposed to the passage of Senate Bill S. 707 which deals with the issues of Domestic Content. It is our feeling that passage of this bill might ultimately lead to a loss of jobs in the U.S. by encouraging an international trade war. It is very unlikely that this action will not encourage foreign investment or revitalize production facilities within this country.

In the long run, we will be best served by having a strong and internationally competitive production base rather than one that is protected by some external means. Our efforts would be much better placed if they were oriented towards improving productivity, lowering total manufacturing costs, and improving technology. This is a much more desirable means of revitalizing industry and encouraging foreign investment. I would encourage you to try to very strongly oppose any efforts on the part of our Government to legislate Domestic Content.

Byron O. Pond, Jr.,
*Chairman, President, and Chief Executive Officer.*

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Chardon Rubber Co.,
*Chardon, OH, April 6, 1984.*

Hon. Bob Packwood,
*Chairman Committee on Commerce, Science & Transportation,*
*Dirksen Senate Office Building, Washington, DC.*

Dear Senator Packwood: The purpose of this letter is to voice my opposition to S. 707, the Fair Practices and Procedures in Automotive Products Act and to outline the reasons for my position.

Our Company is a manufacturer of custom molded and extruded rubber and plastic parts for original equipment manufacturers; over fifty percent of our sales go to automotive industry manufacturers of domestic origin. While it may seem on the surface that this Act would help our Company we are convinced that it will not—that, in fact, in the long run it will harm us.

S. 707 has a number of technical flaws which make it impractical. With the lead-times required for product development and tooling acquisition it would be virtually impossible to meet model year targets set forth in this Act. Even if the timeframe could be met it would not immediately help the unemployment situation in the automotive and related industries and by the time it did the economy might well be at or near full employment. In addition, it could harm the U.S. automotive manufacturers and their suppliers more than it would help them by its imposition of a ninety percent domestic content for the largest manufacturers. One way our Company has been able to remain competitive is to purchase EPDM and neoprene rubber and some rubber chemicals from European as well as domestic suppliers. Under the Act, General Motors or Ford may well have to require its suppliers to purchase domestically at higher prices to aid them in their own domestic content requirements. I can assure you that if we were limited to purchasing raw materials only from domestic suppliers we would be paying higher prices and charging higher prices. Further, if we could not pass on our increased costs we would be forced to give up the business or, in the extreme, go out of business.

However, there are even more important concerns on a much broader scale. Your own independent research arm, the Congressional Budget Office, has indicated that, viewing the economy as a whole, employment would decrease and prices would increase should this piece of legislation be implemented. I heartily agree! Congress as a body must represent all of the people and look to their long range good—not minority, special interest groups, whether they be business or labor. It is unrealistic to believe that if the goals of S. 707 could ever be achieved so that consumers would have the breadth of choice, quality and price they had in the past and presently enjoy.

Many have been proponents of free trade for reasons I will not recount here. Instead, I ask you to assess the value of free trade to the U.S. economy over the past forty years. I know you will find it to be a definite plus. Yet S. 707 over time will destroy free trade and in doing so will adversely affect our nation.

Finally, American industry, government and labor must work hand-in-hand to make our country more competitive in the world economy. Trying to insulate segments of the economy from the realities of world trade simply will not work. Industry and labor—particularly in the mid-west—must control labor costs and improve productivity by working smarter and reinvesting earnings in their businesses. Government for its part must keep inflation down by facing up to tough issues such as curbing automatic increases in entitlements and other budget areas and looking to the welfare of the majority of people rather than that of special interest groups. Rising inflation creates a vicious cycle of higher wages, higher prices and ultimately lower demand until consumer purchasing power can catch up and then the cycle begins again; in the meantime, our products become less competitive on world markets, exports decline and imports rise as we lose market share to our lower cost foreign competitors. We are not now nor can we ever be again a "tight little island". We must face up to our problems and conquer them, tough as they may be. Building protective fences around our industries one by one can only lead to disaster.

Sincerely,

J.W. KEENER, Jr., *President.*

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NATIONAL ASSOCIATION OF MANUFACTURERS,
*Washington, DC, June 14, 1984.*

Hon. BOB PACKWOOD,
*Chairman, Committee on Commerce, Science, and Transportation,*
*Senate Russell Office Building, Washington, DC.*

DEAR SENATOR PACKWOOD: In 1982 I submitted a statement to the Senate Committee on Commerce, Science and Transportation expressing the strong opposition of the National Association of Manufacturers to the domestic content legislation, S. 2300, which was before the committee at that time. My purpose today is to reaffirm our opposition to domestic content in any form and specifically to the two bills before your committee, S. 707 and H.R. 1234. These are entitled, respectively, the "Fair Practices In Automotive Products Act," and the "Fair Practices and Procedures in Automotive Products Act."

We share with the sponsors of this legislation a deep concern about the consequences of allowing the deterioration in U.S. competitiveness to continue unchecked. It now appears that the United States will have a 1984 merchandise trade deficit on the order of $115 to $120 billion. Still more alarming is the trade outlook for manufactured goods. This broad sector accounts for roughly 66 percent of U.S. exports. It is one in which we need to be competitive, and as recently as 1980 and 1981 the United States had a trade surplus in manufactures. This year we are likely to have a manufactures deficit on the order of $84 billion, or almost three-quarters of the total deficit.

In addition to indicating the gravity of the problem America faces in international trade, these numbers suggest that the difficulties are not peculiar to a single sector, e.g., the automotive sector. They affect a wide range of American production. It follows, therefore, that we are unlikely to solve our problems through sectoral-specific legislation. We are particularly dubious respecting proposed solutions on a sectoral basis when industry in the sector concerned is opposed to the proposed legislation.

Your committee has already heard testimony from America's leading automobile producers. It is noteworthy that these industry representatives opposed the legislation at issue and underscored the need for changes in U.S. macroeconomic and exchange rate policies. American macroeconomic and exchange rate policies provide the backdrop for virtually all business activity and determine in large part the outcome of international trade competition. Portions of their testimony bear repeating here:

"The yen and the dollar are still misaligned by 20–25% and this misalignment imposes a serious disadvantage on American products competing with Japanese products at home and abroad. . . .

"The United States is about the only developed country that does not forgive significant domestic taxation on exports and collect similar taxes on imports at the border."—Mr. Kenneth Whipple, Vice President, Ford Motor Co., before the Senate Commerce Committee, May 24, 1984.

"The government should continue its efforts to encourage the internationalization of the yen and better access for U.S. goods to markets in other countries including Japan. . . . Our tax, regulatory and antitrust measures must be shaped with the aim of maintaining healthy U.S. industries in a world of global markets and international competition."—Dr. Marina v.N. Whitman, Vice President and chief economist, General Motors, before the Senate Commerce Committee, May 24, 1984.

"Chrysler believes the best long-term answer to keeping auto investments in the U.S. is not a domestic content law, but rather finding a solution to what we see as the root problem—and that's the unfair $1,600-a-car advantage that the Japanese enjoy in the United States because of the differences in our two countries' tax systems remain unaddressed and because of the undervalued yen/overvalued dollar situation, which is getting worse rather than better."—Mr. Robert A. Perkins, Vice President, The Chrysler Corporation, before the Senate Commerce Committee, May 24, 1984.

The National Association of Manufacturers opposes domestic content legislation because it fails to deal with the problems cited by the auto industry executives quoted above, because it is extremely unlikely that it would achieve even the objective of increased U.S. employment that is promised by its proponents, and because it represents a very dangerous departure from traditional U.S. trade policy.

### EXCHANGE RATES AND TAXATION

To elaborate briefly on the first of these three points, we have argued for some time that the international monetary system is not functioning properly and that American manufacturers and farmers are paying the price. Clearly, the most important factor behind our worsening trade position is a dollar that not only masks but actually adversely distorts the fundamental competitive factor affecting U.S. trade performance. The Council of Economic Advisors has estimated that about half of the trade deficit is currently to be attributed to the dollar exchange rate.

Further, the exchange rate problem has highlighted other conditions of the international marketplace that have worked to the detriment of the United States. Prominent among these is the disadvantage associated with the fact that U.S. producers are virtually alone in the world in their inability to offer exports that do not carry the full burden of domestic taxes. A recognition of the need to change this is one of the considerations that led the NAM Board of Directors to recommend that Congress consider a consumption-based tax in the event the Congress determines there is a need to increase federal tax revenues.

### EMPLOYMENT AND S. 707

Proponents of S. 707 argue that it would increase employment in the automobile sector. What they do not say but is pointed out by most analysts is that the new automotive jobs it might foster would be at the expense of an equal or greater number of jobs in other sectors. As Representative Gibbons, Chairman of the Subcommittee on Trade of the House Committee on Ways and Means, pointed out in testimony before your committee:

"A Congressional Budget Office [CBO] study prepared in 1982 and updated last year concluded that domestic content legislation . . . would cause a net loss of about 67,000 jobs in the U.S. economy.

And that is among the more modest estimates of total job loss.

### EFFECT ON THE INTERNATIONAL TRADING SYSTEM

Finally, Mr. Chairman, domestic content legislation would have a serious, negative impact on the internationl trading system. Adherence to the provisions of S. 707 would force the United States to violate both our agreement with Canada on trade in automotive products and our obligations under the General Agreement on Tariffs and Trade. Participants at last week's London economic summit agreed among other things, "to urge all trading countries, industrialized and developing alike, to resist continuing protectionist pressures, to reduce barriers to trade and to make renewed efforts to liberalize and expand international trade in manufactures, commodities, and services."

It is worth pointing out that, over the course of the 97th and 98th Congress, domestic content legislation has become a symbol of the potential for protectionism in the United States. Its enactment would be a signal to the world that the United States is unable to contain the impulse to close markets in response to economic difficulties. Other countries would take that into account in the formulation of their policies and the result would be a shrinking of demand around the world. That is a development the United States cannot afford, not as the world's largest exporter and not as the nation whose banks are more heavily committed abroad than any other.

The value of U.S. automotive imports, which would be the basis for any retaliation, is very large. In 1983, for example, foreign producers sold approximately $41 billion in automobiles and automotive products in the United States. And it was not all from Japan. Some $17 billion was from Canada and $6 billion from the European Community.

It is worth remembering that the E.C. retaliated against U.S. products in reponse to the quotas and tariffs put on their specialty steel products in July 1983. In that case, the U.S. action was taken in accordance with the provisions of the General Agreement on Tariffs and Trade and affected only $160 million in EC trade. They would almost certainly retaliate against a law that violated GATT and affected over $5 billion in E.C. exports.

The situation with respect to Japan is more complicated and less predictable, but certainly retaliation by Japan cannot be ruled out. Like every other affected trading partner, Japan could retaliate formally or, alternatively, "informally," e.g., through her administrative guidance procedures to restrict imports of U.S. industrial or agricultural products. To repeat, though, the principal danger of domestic content is not that of retaliation but rather that of a U.S. signal to the world that the United States is no longer willing to do its part in maintaining the rule of law in international trade.

For all of these reasons, we urge the Committee to reject S. 707 and H.R. 1234 as harmful to the economic interests of the United States. In closing, Mr. Chairman, I should like to congratulate you on the illuminating hearings you have held on this legislation and to ask that this letter be made a part of the record of those hearings.

Sincerely,

LAWRENCE A. FOX,
*Vice President, International*
*Economic Affairs Department.*

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CALSONIC MANUFACTURING CORP.,
*Shelbyville, TN, June 20, 1984.*

Hon. BOB PACKWOOD,
*Chairman, Committee on Commerce, Science & Transportation,*
*Dirksen Senate Office Building, Washington, DC.*

DEAR SENATOR PACKWOOD: I am Executive VP and General Manager of Calsonic Manufacturing Corporation, a company with 101 employees in Tennessee. We manufacture and/or supply parts and major components to the automotive industry.

I am writing you to express our company's strong opposition to the automobile domestic content bill, S. 707 ("The Fair Practices in Automobile Products Act of 1984"), and to urge you to vote against it. The bill may be superficially appealing, and some of its proponents are no doubt well-intentioned, viewing the bill as a way to strengthen the U.S. automotive industry and create jobs. Those are objectives we also endorse; but domestic content won't achieve them.

No matter what words are used to describe it, S. 707 is pure protectionism. By mandating that manufacturers achieve certain percentages of U.S. value added in cars and trucks sold in the U.S. or by imposing severe import quotas, the bill would severely restrict competition in the U.S. automotive market. It would deny auto manufacturers the flexibility they need to stay competitive. Your own Congressional Budget Office as well as other independent experts have made clear that S. 707 would also significantly raise vehicle prices, and on balance destroy jobs in the U.S. rather than create more of them as our trading partners retaliate against us and/or emulate us.

We live in a world economy and we must compete successfully in it. Raising protectionist walls and blocking competition will inevitably make us weaker and less competitive, not stronger. Competition provides a discipline from which we all benefit. Our auto industry has learned that lesson painfully, in recent years. Its future is not assured—no one's is—but the U.S. auto industry has made a remarkable recovery and is moving forward. It has dramatically cut costs and improved its products. Domestic content would only permanently set it back.

There are things Government can do to help the automotive industry and all American industry. We have a disastrous federal budget deficit that is pushing up interest rates as well as the dollar's value. That "taxes" our exports and makes imports a bargain. Our trade deficit is growing out of control as a result. If Congress would take action on that problem and the Administration would vigorously enforce our laws against unfair foreign competition and fight harder for better access for our products in foreign markets, American business could take care of itself.

Vote against S. 707 and put that ill-considered legislation behind us. Then let's get on with the real jobs we all face.

Sincerely yours,

OSCAR A. JOHNSON,
*Executive Vice President & General Manager.*

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INTERNATIONAL APPLE INSTITUTE,
*McLean, VA, June 29, 1984.*

Hon. BOB PACKWOOD,
*Chairman, Committee on Commerce Science & Transportation,*
*U.S. Senate, Washington, DC.*

DEAR CHAIRMAN PACKWOOD: The International Apple Institute (IAI) is an organization of over 9,000 U.S. apple growers plus more than 500 packers, shippers, sales organizations and processors. The IAI membership handles nearly all of the U.S. apple production, which during the recent (1983) crop season totalled 195 million bushels. Of this, over 10 million bushels have been exported. Such exports have reached 15 million bushels annually. Present tree plantings indicate that the U.S. production will increase substantially during the next five years. Exports must be expanded to successfully market future crops.

The apple industry is vitally interested in seeing open and fair international trade maintained, and therefore strongly opposed S-707—the Domestic Content Bill. We believe the passage of such legislation is in violation of America's international commitments and obligations under the General Agreement on Tariffs and Trade, and invites retaliatory actions from other countries, particularly Japan and the European community. We, the apple industry, as well as many other agricultural commodity groups, cannot afford to lose export market opportunities.

The U.S. apple industry, with leadership from the Washington State Apple Commission currently is having discussions with industry leaders and government officials in Japan to open that country's market for U.S. produced fresh apples—a market that is badly needed. Passage of legislation such as the Domestic Content Bill would seriously jeopardize such an effort.

The apple industry strongly urges you to vote against S-707 or domestic content in any form, and we encourage your colleagues to do the same.

Sincerely,

JOHN J. MANDY,
*President.*
DERL I. DERR,
*Executive Vice President.*

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CATERPILLAR TRACTOR CO.,
*Peoria, IL, July 2, 1984.*

Hon. BOB PACKWOOD,
*U.S. Senate,*
*Washington, DC.*

DEAR SENATOR PACKWOOD: I am sorry we are unable to be in Des Moines on July 6, 1984, to express Caterpillar's opposition to S. 707, "The Fair Practices in Automotive Products Act." However, we do want to take this opportunity to express our opposition to the legislation.

Simply stated, local content laws are another form of protectionism measures such as Caterpillar—and our employees—have much to lose if protectionist measures as S. 707 are enacted.

Export sales are critical to Caterpillar. Last year, 38 percent of our U.S.-produced products made their way into foreign markets. These export-related sales provided jobs for some 16,000 Caterpillar employees. Because of our dependence on overseas sales, we have a strong interest in preserving a free and open climate for trade. Domestic content legislation, even if limited to the auto industry, could damage the long-term interests of Amerian exporters and their employees.

We're concerned that enactment of a domestic content law would give a strong push to protectionistic pressures that now threaten the international trading system—a system which is already coming under severe strain as some countries seek ways to protect their domestic markets. If the United States were to abandon its traditional free trade leadership and enact a domestic content law, other major trading nations can be expected to follow our lead. The result would be an increase in international trade tensions much like those which preceded the 1930s depression.

We're also concerned about the "ripple" effect which this kind of protectionist legislation could have on our company. Industries that supply automobile manufacturers—such as steel and rubber—would have a capitive domestic market. They could afford to become complacent, allowing their products and prices to be less competitive. However, those same industries also serve as Caterpillar suppliers. If our costs for materials rise, we'll find it more difficult to compete effectively in global markets and more difficult to provide stable employment for our employees.

There is also the matter of labor cost. A basic purpose of domestic content legislation is to relieve economic pressure on management and labor, in both auto and supplier industries to control costs. Once in effect, such legislation would tend to permit wages to rise more rapidly in the U.S. auto industry. Since most Caterpillar workers are also represented by the United Auto Workers, we'd be expected to match the Detroit pattern. But unlike the auto industry, Caterpillar exports almost half of its U.S. production. Our international competitiveness would be significantly weakened if we were forced to pay the same disproportionately high compensation package as a protected domestic industry.

In sum, Caterpillar is not persuaded that a domestic content law will enable the U.S. economy to provide more jobs over the long run for Americans. In fact, we believe the impact will be just the opposite.

Thank you for the opportunity to present our views. We appreciate your interest.

Sincerely,

H. Richard Kahler,
*Governmental Affairs Manager.*

Attachments.

## CATERPILLAR TRACTOR CO.

[Employment/USA]

| | Total | Caterpillar [1] | Dealership [2] |
|---|---|---|---|
| State: | | | |
| Alabama | 700 | | 700 |
| Alaska | 300 | 10 | 300 |
| Arizona | 775 | 100 | 675 |
| Arkansas | 315 | | 315 |
| California | 7,063 | 4,863 | 2,200 |
| Colorado | 750 | 250 | 500 |
| Florida | 1,355 | 80 | 1,275 |
| Georgia | 635 | 35 | 600 |
| Hawaii | 200 | | 200 |
| Idaho | 275 | | 275 |
| Illinois | 36,775 | 36,225 | 550 |
| Indiana | 605 | 405 | 200 |
| Iowa | 2,550 | 2,150 | 400 |
| Kansas | 350 | | 350 |
| Kentucky | 1,300 | | 1,300 |
| Louisiana | 625 | 50 | 575 |
| Maine | 25 | | 25 |
| Maryland | 375 | | 375 |
| Massachusetts | 175 | | 175 |
| Michigan | 340 | | 340 |
| Minnesota | 420 | 20 | 400 |
| Mississippi | 450 | 50 | 400 |
| Missouri | 850 | 25 | 825 |
| Montana | 325 | | 325 |
| Nebraska | 350 | | 350 |
| Nevada | 175 | | 175 |

## CATERPILLAR TRACTOR CO.—Continued

[Employment/USA]

| | Total | Caterpillar [1] | Dealership [2] |
|---|---|---|---|
| New Hampshire | 175 | | 175 |
| New Jersey | 290 | 15 | 275 |
| New Mexico | 475 | | 475 |
| New York | 940 | 20 | 920 |
| North Carolina | 575 | | 575 |
| North Dakota | 175 | | 175 |
| Ohio | 2,202 | 1,302 | 900 |
| Oklahoma | 735 | 10 | 725 |
| Oregon | 850 | 250 | 600 |
| Pennsylvania | 3,900 | 2,500 | 1,400 |
| South Carolina | 200 | | 200 |
| South Dakota | 125 | | 125 |
| Tennessee | 1,050 | 275 | 775 |
| Texas | 3,175 | 185 | 2,990 |
| Utah | 525 | | 525 |
| Virginia | 700 | | 700 |
| Washington | 650 | 25 | 625 |
| West Virginia | 400 | | 400 |
| Wisconsin | 925 | 550 | 375 |
| Wyoming | 325 | | 325 |
| Totals | 76,460 | 49,395 | 27,065 |

[1] Includes Caterpillar Tractor Co., Solar Turbines Inc., Superior Gear Co. and Towmotor Corporation.

[2] Independently owned and operated dealerships.

THE BUSINESS ROUNDTABLE,
*July 2, 1984.*

Hon. BOB PACKWOOD,
*U.S. Senate,*
*Washington, DC.*

DEAR SENATOR PACKWOOD: Currently the Committee on Commerce, Science and Transportation is considering S. 707, the "Fair Practices in Automotive Products Act." I am writing to present the strong opposition of the Business Roundtable to this bill.

We recognize that the objective of S. 707 is to create jobs. However, we believe the legislation, if enacted, would have the opposite effect on U.S. employment. It the United States imposes local content requirements on automobiles sold here, we risk the threat of retaliation against U.S. exports in foreign markets. Retaliation could harm those industries where the United States enjoys a competitive advantage and thus have a negative impact on employment.

Wharton Economic Forecasting Associates has found that overall employment in the United States would be substantially reduced by such legislation. They projected that, by 1991, 58,000 new jobs would be created in the auto sector. However, those jobs would come at the expense of 423,000 jobs lost elsewhere in the economy.

Enactment of local content legislation could also jeopardize the United States' efforts to persuade other countries to open their markets more fully to U.S. trade and investment. These initiatives could be frustrated by adverse international reaction to enactment of a local content law.

The Business Roundtable agrees that the United States should be aggressive in maintaining the position of its companies in the international marketplace. But we must draw a line between aggressive assertion of our interests and support for protectionist measures that will do more harm than good.

We believe enactment of domestic content legislation is a poor substitute for bilateral discussion and trade negotiations within a multilateral framework. Only the maintenance of an open international trading environment will serve the long-term interests of U.S. manufacturers and producers and, in turn, provide secure employment. As the world's foremost trading nation, the United States clearly has the most to lose from increased protectionism.

Once again, the Business Roundtable urges the committee to defeat S. 707.

I appreciate the opportunity to present the Business Roundtable's views on this critical legislation.

Sincerely,

LEE L. MORGAN,
*Chairman, Task Force on International Trade and Investment.*

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### RESOLUTION NO. 16, JOB DEVELOPMENT THROUGH INTERNATIONAL TRADE, BY MAYOR RICHARD E. CARVER, PEORIA

(1) Whereas, recognition of the importance of international trade to our domestic economy is a growing reality; and

(2) Whereas, the level of exports of the United States of America as a percentage of our Gross National Product is high even as compared to such exporting nations as Japan; and

(3) Whereas, the continuing need to expand our participation in international trade is a part of the process to increase the number of jobs in American cities;

(4) Now, therefore, be it *Resolved* that the U.S. Conference of Mayors opposes legislation that places a requirement on domestic content or restricts our participation in international trade; and

(5) Be it *Further Resolved* that the U.S. Confernece of Mayors calls upon the United States Congress to further enhance our ability to participate in the international economy through increased exports and to oppose any unwarranted actions which cause reciprocal trade barriers to be increased among our trading partners; and

(6) Be it *Further Resolved* that the U.S. Conference of Mayors urges the political parties to include such statements in their platforms.

Projected Cost: None.

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SECRETARY OF THE TREASURY,
*Washington, DC, May 23, 1984.*

Hon. BOB PACKWOOD,
*Chairman, Committee on Commerce, Science and Transportation,*
*U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: I am writing to underline the Administration's strong opposition to S. 707, which would impose local content requirements on automobiles sold in the United States.

The basic principle of local content is fatally flawed. If local inputs are competitive, the legislation is not necessary. If local inputs are not competitive, the legislation protects and rewards inefficiency while forcing U.S. consumers to pay the costs. Indeed the legislation creates an incentive to maximize U.S. costs. Applied to the economy as a whole, these principles would spell disaster.

Such legislation would be a giant step backward for a major industrial nation. The implications for the United States and the world economy are profoundly disturbing. Passage of this legislation will only encourage the creation of a weak and uncompetitive auto industry, an industry which would be a drag on our economy and a perpetual burden on U.S. consumers. I urge your Committee to defeat this ill-conceived legislation.

With best wishes,

Sincerely,

DONALD T. REGAN.

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